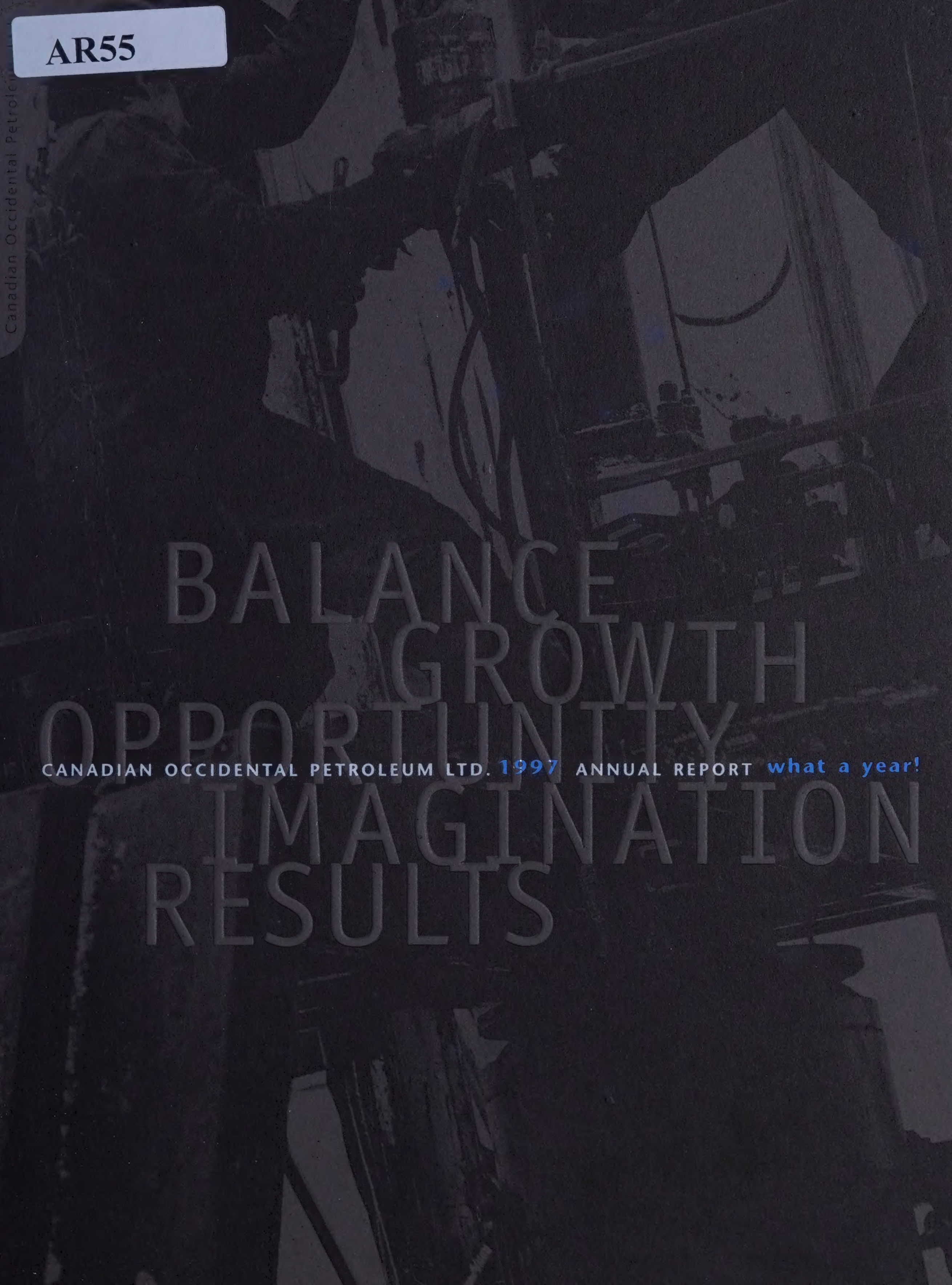


BALANCE
GROWTH
OPPORTUNITY
IMAGINATION
RESULTS

CANADIAN OCCIDENTAL PETROLEUM LTD. 1997 ANNUAL REPORT what a year!

We are Canadian Occidental Petroleum Ltd.

a rapidly growing, independent, Canadian based global energy and chemicals company.

Our core business activities include exploration, development, production and marketing of crude oil and natural gas.

We produce oil and gas in Canada, Yemen, the Gulf of Mexico, the North Sea and Ecuador.

We own a 7.23 per cent interest in the Syncrude synthetic oil joint venture.

We are developing new production offshore west Africa and offshore northwest Australia.

We are also exploring for oil and gas in northwest Australia, northern South America and Indonesia.

We manufacture and market sodium chlorate, chlorine and caustic soda through our Chemicals operation.

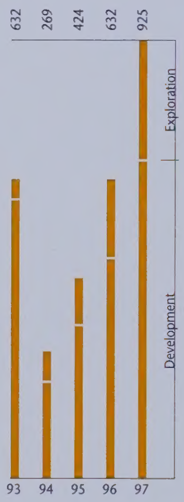
In this report, unless otherwise specified, dollar amounts are stated in Canadian dollars, and production and reserve numbers represent CanadianOxy's working interest before royalties. Natural gas is converted to oil equivalent at the rate of ten thousand cubic feet = one barrel of oil for Canada and six thousand cubic feet = one barrel of oil for the United States and North Sea. Divisional funds flow from operations is presented before corporate items and income taxes.

Certain statements in this report constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995* and Section 21E of the United States *Securities Exchange Act of 1934*, as amended. By their nature, such statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied. Readers should refer to the Company's 1997 Annual Report on Form 10-K for a discussion of the risks and uncertainties.

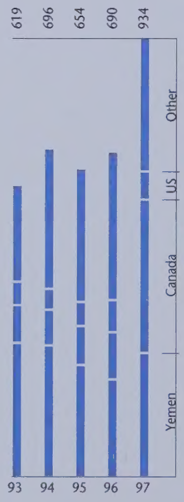
operations financial

highlights	1997	1996	1995
(dollar amounts in millions except per share data)			
Net Sales	$ 1,681	$ 1,362	$ 1,180
Funds Flow from Operations	$ 865	$ 766	$ 630
Per Common Share	$ 6.34	$ 5.64	$ 4.68
Net Income	$ 139	$ 190	$ 141
Per Common Share	$ 1.02	$ 1.40	$ 1.05
Capital Expenditures	$ 925	$ 632	$ 424
Acquisitions	$ 1,680	$ –	$ 50
Common Shares Outstanding (millions)	136.6	136.2	135.0
Daily Production			
Oil and Natural Gas Liquids (thousand barrels)	171.5	123.1	119.1
Synthetic Crude Oil (thousand barrels)	15.0	14.5	14.6
Natural Gas (million cubic feet)	388	244	222
Sodium Chlorate Production			
(thousand short tons)	383	349	278
Proved and Probable Reserves			
Oil and Natural Gas Liquids (million barrels)	567	389	371
Synthetic Crude Oil (million barrels)	213	192	174
Natural Gas (billion cubic feet)	1,317	824	832

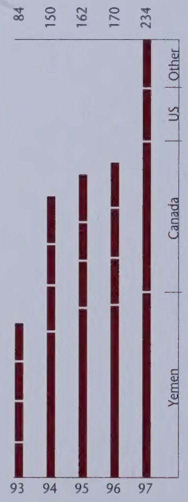
capital expenditures
(millions of dollars)



reserves
proved and probable
(millions of BOE)



daily oil and gas
production
(thousands of BOE)



funds flow per
common share
(dollars)

net income per
common share
(dollars)

what we said we'd do

Our goals for 1997 included:

investing $650 million of capital in value-adding projects;

replacing our production with new reserves in North America and Yemen;

directing an aggressive, high-potential exploration program internationally; and

continuing to earn first-quartile shareholder returns.

what we did

Invested $1.7 billion to acquire Wascana, a low-risk source of reserves and production growth. A further $925 million was directed at ongoing capital projects.

Increased total reserves by almost 250 million barrels of oil equivalent for an annual reserve replacement ratio of 380 per cent.

Drilled eight international exploration wells and added several high-potential projects in Indonesia and offshore northwest Australia.

Remained highly profitable with a return on equity of 12 per cent even though earnings were reduced by the Wascana acquisition.

The acquisition of Wascana, combined with increased growth opportunities in Yemen and our expanding asset portfolio, has created an opportunity-rich environment for CanadianOxy.

fellow shareholders,

What a year! 1997 was the start of an exciting new phase of growth and development for CanadianOxy.

Victor J. Zaleschuk Dr. Ray R. Irani

With the successful acquisition of Wascana Energy, we combined the strengths of two outstanding organizations to create a new leader in the oil and gas industry. We now offer a balanced portfolio of some of the most exciting exploration and exploitation opportunities in North America and abroad. Our oil and gas business is complemented by the success of our Chemicals operation, one of the top sodium chlorate producers in North America.

where we're going

In 1998, we expect to invest $800 million in value-creating capital projects.

We expect low-cost reserve replacement to outpace our growing production from existing projects in Canada and Yemen.

Exploration in the Gulf of Mexico, west Africa, northwest Australia, Colombia and Indonesia has the potential for considerable value growth. Although an exploration program of this magnitude may impact earnings in the short-term, we expect our return on equity to remain significantly above average over the long-term.

CanadianOxy combines these premier assets with a group of talented and innovative employees who know how to get the job done right. Our remarkable journey together is founded in sound financial management and a strong commitment to creating shareholder value.

Built on people. CanadianOxy's success is built on the skills and imagination of its people. The acquisition of Wascana brought this fact home. We learned from each other and began building our exciting future together. In this report, we'll proudly introduce you to some of our people and their achievements.

Success with integrity. We plan to continue earning first-quartile returns for our shareholders, but not at the expense of the environment or the health and safety of our employees and the communities where we operate. CanadianOxy has a responsibility to act as a good corporate citizen in many communities around the world and we take our role seriously.

Everything we do is grounded in a set of core company values: integrity, professionalism, responsibility, accountability, cooperation and teamwork, recognition and learning. You will read about examples of these values in action throughout this report. It doesn't matter where or with whom we work, we want all CanadianOxy employees to take pride in knowing they did the "right things right".

Record results. CanadianOxy's worldwide oil and gas production increased 38 per cent in 1997, reaching a record 234 thousand barrels of oil equivalent per day. Growing volumes and attractive commodity prices lifted net sales 23 per cent, while conventional production costs averaged $3.28 per barrel of oil equivalent.

As a result, funds flow from operations increased 13 per cent to $865 million ($6.34 per common share). Net income totaled $139 million ($1.02 per common share), down due to the non-tax deductibility of depletion associated with the acquisition, resulting in a return on shareholders' equity of 12 per cent.

The acquisition of Wascana cost $1.7 billion. With the inclusion of Wascana's numerous projects, capital investment reached a record $925 million and net debt peaked at $2.6 billion. When we announced the acquisition, we committed to reducing our net debt to approximately $2.1 billion by the end of 1998. We are pleased to have achieved this target a full 12 months ahead of schedule, due to an aggressive disposition program conducted during attractive asset markets in the third and fourth quarters.

Looking back on 1997 we see some remarkable achievements:

We acquired Wascana and created an industry leading, high-growth organization from the combination of assets and people.

We accelerated our activity in western Canada, drilling over 700 wells, adding 257 million barrels of oil equivalent of reserves and increasing production to 95 thousand barrels of oil equivalent per day.

We built on our strong competitive position in Yemen, adding significant low-cost reserves and setting new production records from the Masila Block.

We added to our high-potential exploration portfolio, capturing new prospects in Australia, Indonesia and the deep waters of the Gulf of Mexico.

We set new corporate records for capital investment, production and cash flow.

We sold almost $500 million of non-core assets at premium prices. Sale proceeds were used to significantly accelerate repayment of the debt incurred to purchase Wascana.

The market recognized the value we added for shareholders. During 1997, CanadianOxy's share price increased over 45 per cent ranging from a low of $22 to a high of $40.80.

The year ahead. CanadianOxy's current portfolio of opportunities is unprecedented in the Company's history. Although softer oil prices will defer some projects originally planned for this year, we still expect to invest approximately $800 million to generate continued production growth and shareholder value. Oil prices are forecast to remain soft in 1998, but we believe the medium to longer-term outlook is favourable. In the near term, we have the opportunity to catch our breath, assemble our resources and hit the ground running when the time is right.

CanadianOxy will continue its accelerated drilling program in 1998, including approximately 520 wells in North America and 47 wells internationally. The bulk of our drilling activity will involve low-cost development of reserves, adding new production in western Canada, the Gulf of Mexico, Yemen, west Africa and Australia. We anticipate continued production growth and we expect to match last year's funds flow, despite an oil price outlook of approximately U.S.$3.00 per barrel less than the average for 1997. We plan to capture additional growth in 1998 from our ongoing exploration programs in North America, Yemen, Australia, west Africa, Colombia and Indonesia.

The outlook for our Chemicals operation remains very positive. Expansion and modernization activities allowed us to more than double our capacity in this business in 1996 and Chemicals has been generating significant free cash flow since. We expect this business to continue to generate significant free cash flow.

Recognition. We would like to recognize and thank David Hentschel for his service to the Company and its shareholders. David relinquished his day-to-day responsibilities as CanadianOxy's President and Chief Executive Officer at mid-year, but he continues to contribute to the Company's success as an active member of our Board of Directors. We welcome Richard Thomson, who was appointed to the Board in late 1997. Finally, our sincere appreciation extends to CanadianOxy employees for their contributions toward another stellar year.

R R Irani

Dr. Ray R. Irani
Chairman of the Board

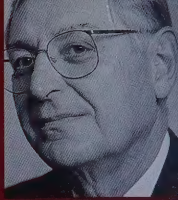
V J Zaleschuk

Victor J. Zaleschuk
President and Chief Executive Officer

February 27, 1998, Calgary, Alberta

corporate governance

The Board of Directors of CanadianOxy takes seriously its duties and responsibilities with respect to principles of good corporate governance. In this regard, CanadianOxy supports and conducts its business in accordance with the guidelines adopted by The Toronto Stock Exchange. A report of our compliance with the guidelines may be found in the Proxy Statement and Information Circular.



1997:

Our long-term goal is to increase the value of the Company by 15 per cent every year. This aggressive target means we plan to double the Company's value every five years.

PLANS

GROWTH STRATEGY

Niche player
match our business activity to market opportunities to maximize our competitive position

Full-cycle capability

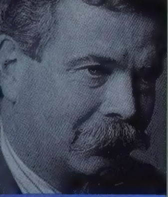
core area exploration
aggressively extend known plays onto new acreage

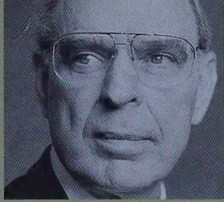
aggressive development/exploitation
apply technology to maximize productivity at the lowest cost

wildcat exploration
prudently explore for high-potential profitable reserves in proven hydrocarbon basins

strategic asset management
strategic acquisitions and dispositions that enhance our competitive advantage

Financial discipline
focus on financial and operating parameters to ensure investment opportunities add real value





"CanadianOxy's success results from the creativity, expertise and commitment of our employees, combined with high-quality assets. Our multi-disciplinary teams add low-cost reserves, while pushing our production facilities to maximum efficiency."

ACTION

The Wascana acquisition allowed us to capture significant underdeveloped assets, while putting excess cash generated by our other operations to work.

Our undeveloped land portfolio is expanding rapidly. We currently have a multi-year inventory of drilling locations in North America and internationally.

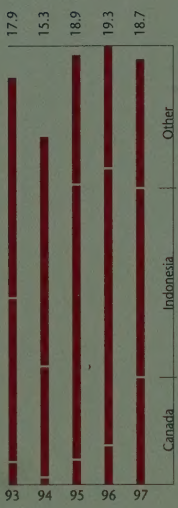
Drilling activity has accelerated to capture the opportunities provided by Wascana and a growing international portfolio.

Record funds flow was achieved through significant production growth in Canada, Yemen and Syncrude.

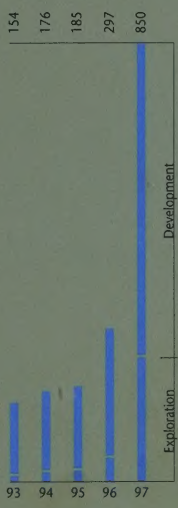
RESULTS

capital expenditures and acquisitions
(millions of dollars)

opportunity portfolio – gross undeveloped acres
(millions)



drilling activity
(number of gross wells)



funds flow from operations
(millions of dollars)

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PLANS

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strategic asset management
strategic acquisitions and dispositions that enhance our competitive advantage

Financial discipline
focus on financial and operating parameters to ensure investment opportunities add real value

ACTION

acquisition

Our Canadian asset base was significantly expanded and improved through the acquisition of Wascana. This creates a new balance between our North American and international asset portfolios and provides a solid base for low-risk growth.

yemen

Exploitation drilling and production performance on the Masila Block added over 91 million barrels of new reserves during the year at a cost of U.S.$0.38 per barrel. Our share of annual production from the Block reached a new record of 98,600 barrels per day.

reserves

With the acquisition of Wascana and our success in Yemen, reserve additions replaced 1997 production by almost four times.

production

Production reached record levels in Canada, Yemen, the United States and Syncrude.

australia

We began a six-well exploration drilling program on recently acquired Block WA-260-P offshore northwest Australia and are preparing development plans for the recently discovered Buffalo Field.

gulf of mexico

In the Gulf of Mexico, we expanded the focus of our successful shallow water strategy into deeper water. A deep water well drilled in late 1997 encountered 37 feet of oil pay. Evaluation of the commerciality of this prospect is continuing.

funds flow

Funds flow reached $865 million ($6.34 per share), setting a new record for CanadianOxy.

marketing

With strategic supply in western Canada, our Marketing group uses its pipeline assets, trading expertise and commercial focus to maximize the value of production for both CanadianOxy and third parties.

capital

With the acquisition of Wascana, our ongoing capital program expanded to $925 million. This was the largest capital program ever undertaken by CanadianOxy.

asset sales

We sold almost $500 million of non-core Canadian properties during the third and fourth quarters at the peak of the market. Sale proceeds reduced the debt used to acquire Wascana by one quarter. We expect to continue making selective asset dispositions in 1998.

debt reduction

The success of our asset disposition program enabled us to achieve our net debt target of $2.1 billion one full year ahead of schedule.

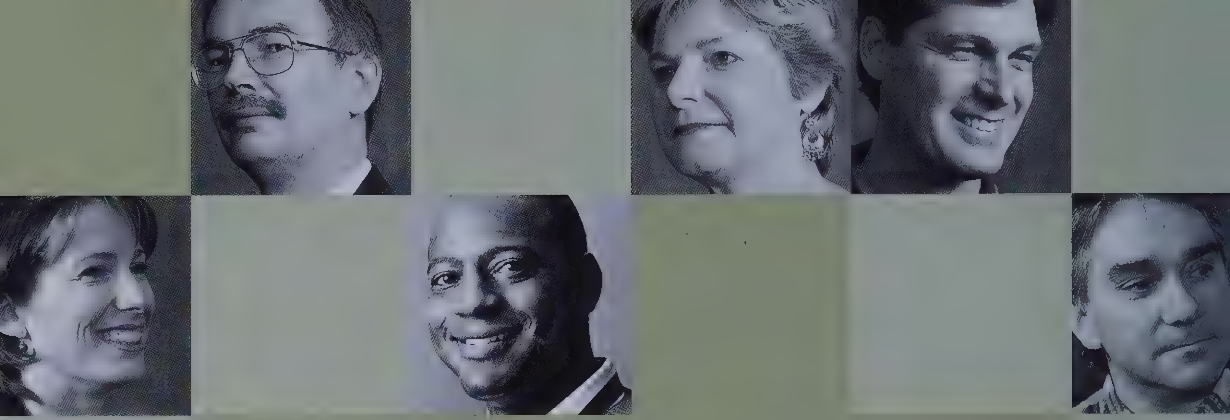
we did it

we saw what CanadianOxy could be,

planned how to make it happen and

took action to accomplish our goals

IMAGINATION



"Our ability to add low-cost reserves and increase production enables us to consistently achieve record results."

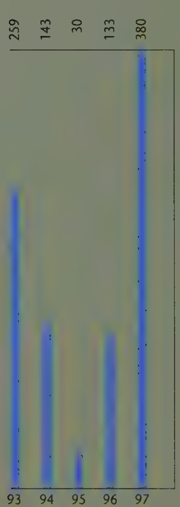
1997 reserve additions significantly exceeded production.

Consistent low-cost reserve replacement ensures long-term profitability.

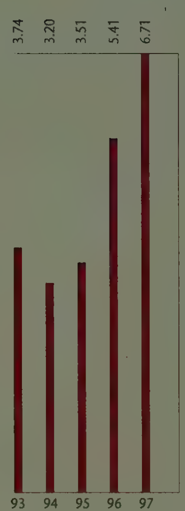
We have nine years of conventional proved and probable reserves at 1997 production rates.

Record funds flow was achieved through our ability to optimize production and minimize production costs.

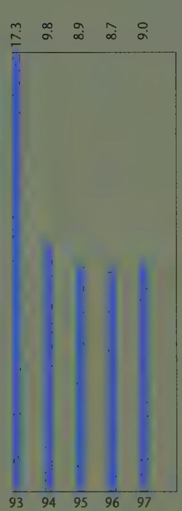
reserve replacement ratio
proved and probable
conventional
(per cent – annual)



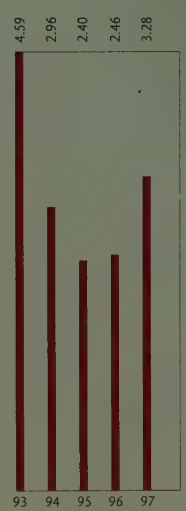
reserve replacement costs
proved and probable
conventional
($/BOE – five year average)



reserve life index
proved and probable
conventional
(years)



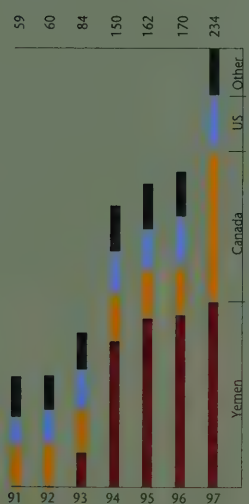
production costs
conventional
(dollars per BOE)

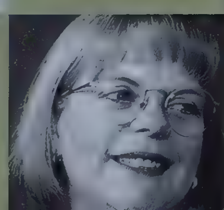


natural gas

Gross proved and probable reserves	1997			1996		
	proved	probable	total	proved	probable	total
(million barrels)						
Yemen	**156**	**106**	**262**	109	97	206
Canada	**183**	**48**	**231**	40	18	58
United States	**22**	**3**	**25**	21	6	27
Alternate Fuels	**168**	**45**	**213**	174	18	192
Ecuador	**8**	**9**	**17**	9	2	11
Other Countries	**6**	**26**	**32**	5	82	87
	543	**237**	**780**	358	223	581
(billion cubic feet)						
Canada	**759**	**215**	**974**	303	125	428
United States	**188**	**22**	**210**	193	56	249
North Sea	**87**	**46**	**133**	101	46	147
	1,034	**283**	**1,317**	597	227	824

daily oil and gas production
(thousands of BOE)





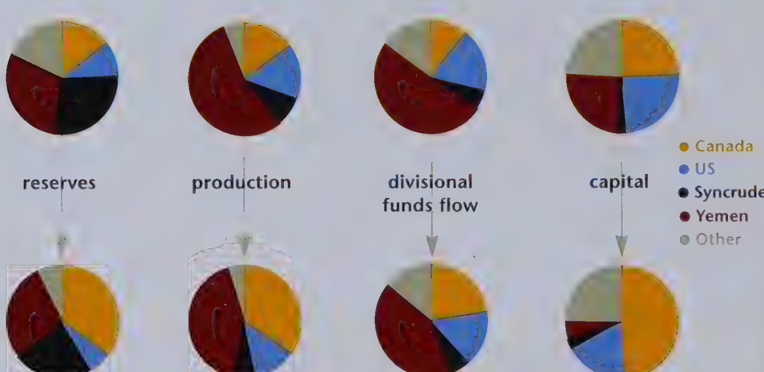
A strong North American base is fundamental to CanadianOxy's global growth strategy. These operations provide predictable, low-risk growth in the near term, offsetting the higher risk and longer lead times inherent in our higher-impact international projects.

Long-term success in western Canada demands large-scale, cost-efficient operations. Recognizing this, our Canadian acquisitions team identified Wascana Energy as an acquisition opportunity in mid-1996. Wascana Energy was an acknowledged leader with the critical mass necessary for steady growth in three key areas: the heavy oil belt of Saskatchewan, the Williston Basin of southeast Saskatchewan and the shallow gas plays of eastern Alberta and western Saskatchewan.

CanadianOxy made a friendly takeover bid for Wascana in April 1997. Following the successful acquisition, Wascana and CanadianOxy's conventional oil and gas operations in Canada were integrated into a single operation. The integration was accomplished with no reduction in the momentum of either organization. We kept the name Wascana Energy, recognizing that most of Wascana's assets and head office remain in Saskatchewan.

We believe in a balanced portfolio. Multiple sources of reserves, production, funds flow and capital opportunities enable us to effectively manage geologic, political and general economic risks.

WASCANA BALANCE



1996
this was our portfolio before we acquired Wascana

1997
this is where we are today

The acquisition was predicated on CanadianOxy's ability to realize value from Wascana's underexploited assets. With over three million acres of undeveloped land and an inventory of over 1,000 seismically-defined drilling locations, the new Wascana is well positioned for growth.

Wascana has outstanding technical expertise and competitive advantages in several areas. We are the industry leader in heavy oil waterfloods and horizontal drilling technology. Experience in building long-term alliances with First Nations also provides Wascana with a competitive advantage among producers in western Canada.

ACQUISITION STATISTICS

assets valued at $2.1 billion ($6.10/boe)

3.1 million undeveloped acres

1000+ drill ready locations

disposed of $463 million of low margin, non-core assets at a price of $5.71/boe of reserves, reducing acquisition debt by 22%

combined proved and probable reserves total 222 million boes (net of asset sales)

81,000 boe/d combined production (net of asset sales)

Activity levels have risen dramatically. Capital investment totaled $456 million in 1997. A total of 707 wells, including 87 exploration wells, were drilled, resulting in 562 oil wells and 58 gas wells. Almost half of our drilling focused on heavy oil properties in west-central Saskatchewan extending known Bakken and Glauconite pools. Another 20 per cent of our drilling focused on the Williston Basin exploiting Mississippian oil pools with multi-leg horizontal technology.

net undeveloped acres
(thousands)

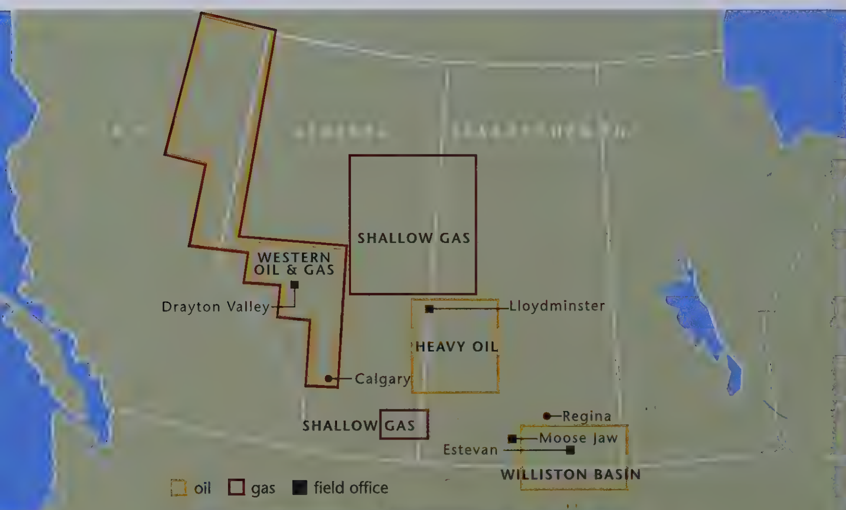
With this acquisition, CanadianOxy is now one of the largest independent oil and gas producers based in Canada. We have an outstanding portfolio of opportunities.

The cost of replacing reserves, including the acquisition, averaged $6.68 per barrel of oil equivalent for the year. From a finding and development cost perspective, approximately $170 million was invested to tie-in a large volume of proved undeveloped reserves booked on the acquisition of Wascana. Successful drilling added 32 million barrels of oil equivalent of proved reserves at a cost of $8.13 per barrel.

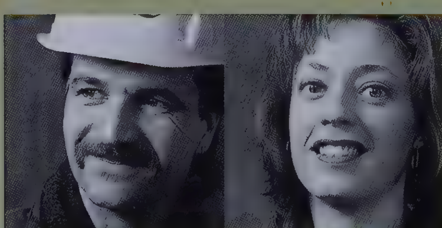
We aggressively rationalized non-core assets following the acquisition. Wascana disposed of 19 properties containing approximately 81 million barrels of oil equivalent of proved and probable reserves for $463 million. These sales enabled us to focus our activity on properties with the greatest upside potential, while reducing acquisition debt more quickly than planned.

Accelerated exploration and development will continue in 1998. Wascana plans to invest almost $300 million, with approximately 20 per cent of total capital expenditures allocated to exploration.

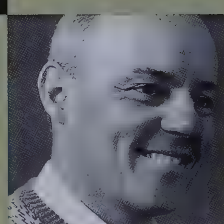
Exploration activity for Wascana will focus on four primary activities:
→ evaluate and capture deep oil opportunities in the Williston Basin;
→ identify and develop a new shallow gas core area;
→ increase our portfolio of heavy oil projects that use waterflood technology; and
→ identify and develop a new western Canada oil and gas core area.

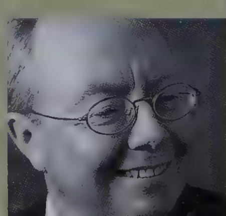


Development activity in 1998 will focus on converting undeveloped reserves into cash-producing assets. Wascana expects to drill almost 500 wells in 1998, adding significantly more reserves than production, at costs below industry average. Overall production is expected to grow approximately 20 per cent to over 100,000 barrels of oil equivalent per day.



"We created a new [illegible] the process we not only carried on our business without missing a beat, we also found six new oil pools in 1997 which should contribute approximately 100 million barrels of new full cycle reserves."





We're interested in profitable growth, not just growth for growth's sake. All of our capital projects are evaluated against a number of stringent economic criteria to ensure real value is generated for our shareholders.

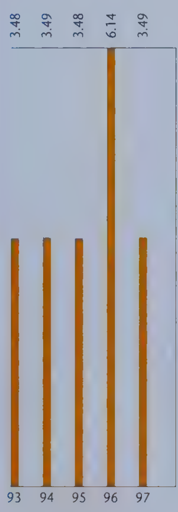
The Masila Project is one of the most valuable strategic assets in our portfolio. This project is a cornerstone of the oil business in eastern Yemen, producing almost 190,000 barrels of oil per day. CanadianOxy is the operator with a 52 per cent interest.

In its fifth year of operation, Masila Block reserves continue to grow. The complex geology of the Block consists of multiple productive horizons, extensive faulting and water-drive reservoirs. With additional seismic information and a growing database of drilling results and production history, our understanding of the Block's reserve potential improves every day.

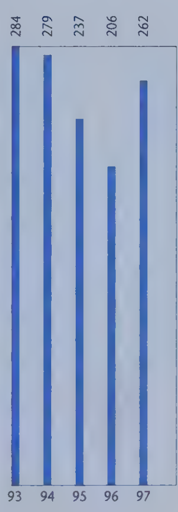
In 1997, we added 91 million barrels of proved and probable reserves increasing our share of Masila Block reserves to 262 million barrels. These increases are due to an extensive reservoir simulation and re-mapping project, drilling success in the Tawila and Camaal Fields and the Dahban new Field discovery.

GROWTH
YEMEN

finding and development costs
proved reserves
(U.S.$/bbl - five year average)



reserves
proved and probable
(millions of barrels)



daily production
(thousands of barrels)

Masila reserves are low-cost. With high capacity production facilities already in place, new reserves can be found and brought on production at a very low cost. Our average cost for Masila reserves since the initial discovery in 1991 currently stands at U.S.$1.94 per barrel.

MASILA PROJECT FACILITIES

78 production wells in 13 fields

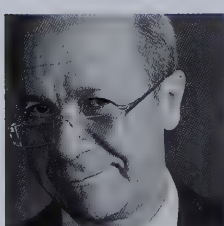
over 300 kilometres of gathering system pipelines

a processing facility capable of handling approximately 625,000 barrels per day of total fluid (oil and water)

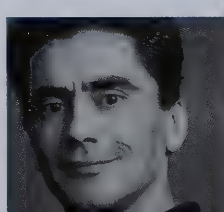
140 kilometres of 24-inch pipeline

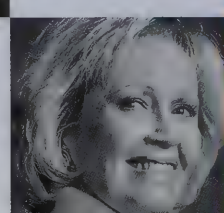
two million barrels of oil storage capability

a deep-water tanker loading terminal capable of handling the world's largest tankers



"We found a better way. By attacking the surface cap rock with hammer bits rather than rotary drills, we reduced our average surface hole drilling time from eight days to half a day."





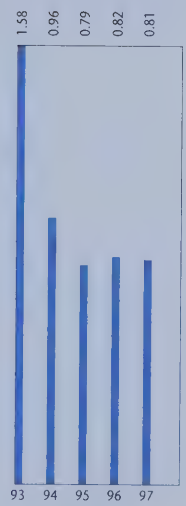
Production from Masila's prolific reservoirs continues to grow. We drilled 12 high-productivity development wells in 1997, primarily in the Camaal and Tawila Fields. Production from these wells offset declines and allowed us to increase overall output eight per cent, to an average of 189,600 barrels per day (98,600 net to CanadianOxy). Single day production reached peaks of over 210,000 barrels during the year.

The Block has numerous additional growth opportunities. Significant opportunities for field extensions exist on the flanks of existing structures as well as on undrilled adjacent fault blocks. Deeper horizons beneath proven fields also appear to have significant promise. We have a ten-well program planned for the Sunah Field to test for possible extensions and develop multiple stacked reservoirs. A number of new undrilled structures have also been identified. Drilling locations are being identified from an extensive 270 square kilometre 3D seismic program which commenced January 1998. The Dahban Field discovery in 1997 was identified using this type of data and was successfully tested for oil.

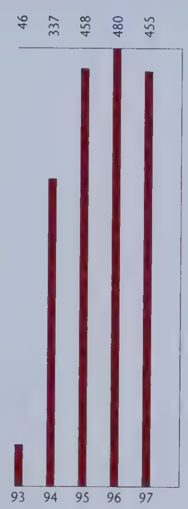
Activity levels are accelerating in Yemen with a doubling of our capital program from 1997 to 1998. The addition of a second drilling rig and enhancements to production facilities will allow us to capture increased opportunities on the Masila Block. Over the next two years, we are planning a significant investment in new wells and facilities to maintain Yemen's strong position in our portfolio. Our program will concentrate on maintaining high rates of production and evaluating potential new reserves over the entire Block.

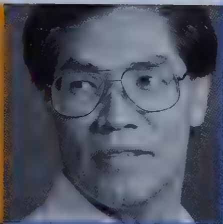
Opportunities for additional growth in Yemen. We are actively evaluating opportunities near our Masila infrastructure. In addition, a multi-disciplinary business development team is conducting a broad-based regional study to identify new exploration opportunities.

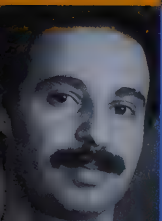
operating costs
(U.S. dollars per barrel)



funds flow from operations
(millions of dollars)







We create value by exploiting opportunities generated through strategic acquisitions and low-risk exploration. We combine this exploitation with high-impact exploration.

OPPORTUNITY

A wealth of opportunities abroad and here at home. CanadianOxy has a diverse portfolio of oil and gas assets in proven international basins and in North America. We continue to exploit existing assets and new opportunities with established reserves and upside potential. We also consistently pursue a limited portfolio of high-potential exploration projects.

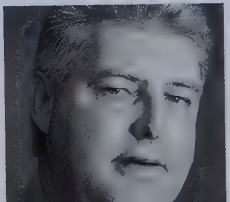
High-quality core assets are low-risk sources of steady, dependable growth at attractive costs.

CXY Energy manages our operations in the United States, located primarily in the shallow waters of the Gulf of Mexico. These include interests in 234 oil and gas wells producing from 36 platforms on 28 federal offshore lease blocks. CXY Energy is also positioning itself for long-term growth by increasing its exploratory acreage and seismic inventory. CXY Energy has a total of 264,000 net undeveloped acres, over 140,000 miles of 2D seismic data and access to 6,900 blocks of 3D seismic data both on the shelf and in deeper water.

Alternate Fuels manages our interest in Syncrude Canada Ltd., which mines oil sands and upgrades bitumen into synthetic crude oil.

Our operations in the North Sea are located in the southern gas basin. We have numerous assets in the basin including various interests in the producing Vulcan, Valiant and Caister natural gas fields, the Caister-Murdoch and Eagle Transportation System gas pipeline systems and seven exploration and appraisal blocks in the vicinity of the Caister Field.

"We have a solid base of core assets beyond Yemen and Canada. We rely on these assets for consistent, steady growth."



CORE GROWTH

	CXY ENERGY Growing in the Gulf of Mexico	**ALTERNATE FUELS** Syncrude expansion announced	**NORTH SEA** Assessing potential new gas fields for future growth
1997 RESULTS	Production increased to 95 million cubic feet of gas and 13 thousand barrels of oil per day through successful redevelopment of Vermilion Block 320 and ongoing exploitation of Eugene Island. We added 34 federal offshore lease blocks, increasing total undeveloped acreage inventory to 264,000 net acres. 1997 seismic purchases increased our database to over 140,000 miles of 2D and 1,000 blocks of 3D with access to an additional 5,900 blocks of 3D data. We established a deep water entry position with the acquisition of 39,000 net undeveloped acres in water deeper than 600 feet.	Syncrude set a new production record of 207,000 barrels per day in 1997. Our share of production averaged 15,000 barrels per day. Development of the North Mine with truck and shovel technology and a new hydrotransport system was successfully brought on-stream in the fourth quarter. Significant productivity gains are expected from this integrated system.	Our daily production averaged 38 million cubic feet of natural gas. We drilled a discovery well on Block 49/3 and are evaluating potential development of the Cavendish Field and commercial options with respect to Block 49/3.
1998 PLANS	CXY's capital budget is approximately U.S.$85 million and includes the drilling of 16 to 20 wells. Approximately 60 per cent of the capital is allocated to exploration projects with U.S.$25 million dedicated to purchasing acreage and seismic data, including U.S.$14 million in deep water. The remaining 40 per cent of the budget will be spent on low-risk development projects.	Syncrude owners plan to endorse the development of the Aurora oilsands mine in conjunction with further debottlenecking of the bitumen processing facilities.	We plan to drill one development well on the Vulcan Field and one exploration well.
OPPORTUNITIES	Large reserve potential, technology advances, royalty incentives and advancing infrastructure make exploration of the deep water Gulf of Mexico increasingly attractive. CXY is expanding its portfolio of deep water prospects as part of its long-term strategy.	Recently, Syncrude announced a proposal to double the size of its operation to produce over 400,000 barrels of synthetic crude oil per day by 2006. Capital expenditures for the project will total about $6 billion including over $600 million in new technology to improve environmental performance and energy efficiency. Our share of reserves and production is positioned to increase significantly as technology reduces operating costs, further enhancing the financial performance and value of the project.	We will continue to maximize the value of producing assets and evaluate exploration potential.

New growth and high-potential projects provide us with the ability to grow in the long-term. Low-risk development combined with exploration upside or high-potential exploration plays could lead to another quantum leap in size and profitability for the Company.

Canadian Petroleum manages our international portfolio of assets, including our operations in Yemen.

We have provided the capital and are the contract operator of Oil Mining Lease (OML) 109, offshore Nigeria. OML 109 contains the Ejulebe Field, which is currently under development.

We recently acquired a 50 per cent interest in Block WA-260-P, offshore northwest Australia. The Block contains the undeveloped Buffalo Field and numerous significant and high-quality exploration prospects.

Canadian Petroleum has interests in four exploration blocks in Colombia: Boqueron, Troyano, Paramo Este and Paramo Oeste. These Blocks comprise 859 thousand gross acres of undeveloped land and provide exposure to significant potential reserves in basins with existing infrastructure. We also have a 15 per cent interest in Block 15 in Ecuador. The Block has five producing fields and significant exploration potential.

We are the fifth largest net acreage holder in Indonesia with interests in four exploration blocks: Merangin, Seram, Manna and West Natuna. These Blocks comprise 8.3 million acres of undeveloped land, both onshore and offshore, and provide exposure to large potential reserves in underexplored basins.

HIGH POTENTIAL

	AUSTRALIA Buffalo Field development plus high-potential exploration	**WEST AFRICA** Ejulebe Field development a stepping stone to future growth	**INDONESIA** wildcat exploration for major reserves	**COLOMBIA** significant undeveloped land position
1997 RESULTS	We farmed into a 50 per cent interest in Block WA-260-P, offshore northwest Australia. This highly prospective acreage contains the recently discovered Buffalo Field with 25 million barrels of gross reserves.	We drilled three development wells on the Ejulebe Field on OML 109, offshore Nigeria, and commenced facilities construction. Significant new business development initiatives were undertaken in west Africa to identify high-value projects.	We significantly increased our undeveloped acreage with the addition of the 2.7 million acre Manna Block. Following the evaluation of exploration drilling, we relinquished interests in Kai, Karang Besar and Maratua Blocks. We are currently drilling an exploration well on the Merangin Block.	We completed the seismic evaluation of Troyano and Boqueron Blocks, identifying potential drilling locations on each.
1998 PLANS	We plan to drill five exploration wells to evaluate prospects outside the Buffalo Field. We expect to finalize and commence development of the Buffalo Field.	Completion of production facilities is scheduled for late 1998, with production coming on-stream at 10,000 barrels per day. Business development analysis has highlighted several exciting opportunities which we will be vigorously pursuing in 1998.	The evaluation of seismic data on the Manna and Seram Blocks is underway to identify drilling locations.	We plan to reprocess and evaluate seismic information on the Paramo Blocks to identify drilling prospects. Exploration wells will be drilled on the Troyano and Boqueron Blocks.
OPPORTUNITIES	The Buffalo Field is expected to commence production by late 1999 at about 40,000 barrels per day. We are currently evaluating additional prospects on the Block.	Recent discoveries offshore west Africa include several giant fields. We are actively looking for significantly greater exposure in this high-potential area. We will continue to build working relationships with key players and governments in this region.	Our interests, held under favourable fiscal terms, provide exposure to high-potential exploration prospects, primarily in oil prone areas. The notable exception is the Merangin concession, where we are exploring for giant gas fields which could supply an emerging gas market.	Exploration of Colombian thrust belts has led to giant oil and gas discoveries. Upper Magdalena and Putumayo basin acreage exposes us to this type of play with significant reserve potential. Discoveries in both areas would benefit from under-utilized existing infrastructure.

Supply and demand for chlorate are converging. Based on recent and planned expansions, debottlenecking and modernizations, we expect North American chlorate supply and demand to come into balance within two years. In 1997, the North American sodium chlorate industry operated in the range of 80-85 per cent of capacity. This very competitive market led to some erosion in market prices. As demand catches up, prices are expected to firm.

CXY Chemicals is a major North American sodium chlorate producer. CXY Chemicals is the third largest manufacturer of sodium chlorate in North America, with 447,000 short tons of annual capacity and approximately 20 per cent market share. We serve North America's three major pulp-producing regions from six plants strategically located near key markets. Approximately 70 per cent of our product is manufactured at Taft (Louisiana), Brandon (Manitoba) and Bruderheim (Alberta); three of the lowest cost plants in the industry.

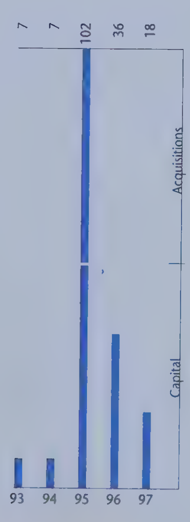
sodium chlorate production capacity (thousand short tons)

pre 1987	1987	1991	1992	1993	1994	1995	1996	1997
42	91	194	231	217	217	349	447	447

CHEMICALS

Demand for sodium chlorate continues to grow. When chlorine is replaced with sodium chlorate in the pulp bleaching process, a higher-quality, more economical and environmentally-preferred wood pulp is produced. Approximately 600,000 tons of chlorine is still being used for pulp bleaching in North America every year. The U.S. Environmental Protection Agency has finalized the cluster rules. These rules became effective in early 1998 and are expected to support continued growth in the demand for sodium chlorate.

capital expenditures and acquisitions
(millions of dollars)



funds flow from operations
(millions of dollars)

sodium chlorate production
(thousand short tons)

CXY Chemicals is also a safe and efficient producer of chlorine and caustic soda. We produce chlorine and caustic soda at our chlor-alkali facility located at North Vancouver (British Columbia). Facing declining use of chlorine as a bleaching agent, we successfully redirected our chlorine to alternate markets enabling this facility to continue operating at full capacity.

A modern, efficient chemicals business with modest capital requirements. We expanded and modernized our sodium chlorate facilities in 1995 and 1996, doubling capacity from 217 to 447 thousand short tons. These improvements require moderate sustaining capital to maintain the efficiency of the operation.

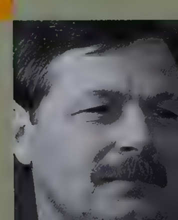
CXY Chemicals is generating substantial free cash flow. Funds flow from operations totaled $87 million in 1997. Our capital program for 1997 totaled $18 million, with a similar program planned for 1998, resulting in a significant and stable source of free cash flow for CanadianOxy.

CXY Chemicals is highly profitable. Recent expansions and acquisitions were made at well below replacement cost ensuring high returns throughout the business cycle.

We serve North America's three major pulp-producing regions from six plants strategically located to minimize the cost of delivering our product.

CXY Chemicals' safety and environmental performance continues to show positive results. Our safety incident rate improved by 54 per cent over 1996 levels, while the number of reportable environmental incidents was reduced by almost 50 per cent. This is consistent with our Responsible Care commitment.

"Continuous improvement is a way of life throughout our Chemicals operation – from our plants through to our marketing group. We're always looking for ways to improve how we do business. This attitude is part of why we're so successful."





THE WAY WE DO BUSINESS

champion of an international code of ethics

International Code of Ethics for Canadian Business In September 1997, CanadianOxy and Foreign Affairs Minister, Lloyd Axworthy, held a joint news conference to introduce a new Code of Ethics for Canadian businesses operating overseas. CanadianOxy was a champion and a key player in the creation of the Code, which was endorsed by about 20 other companies and four business associations. The Code outlines a set of principles, providing guidance for proper conduct according to several core values, dealing with human rights and social justice, wealth maximization for all stakeholders and operation of a free market economy.

working with integrity everyday

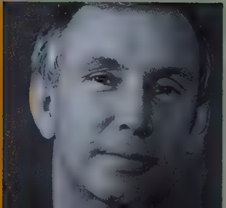
Integrity Program CanadianOxy initiated an Integrity Program for all employees in 1997 to ensure the Company maintains the highest standards in its business practices. The program is anchored on the Corporate Values handbook, which clearly communicates corporate values, while providing information and advice on related policies and resources. All employees will attend a day-long integrity workshop, which is an opportunity for further discussion on pertinent topics such as improper payments, conflict of interest and harassment.

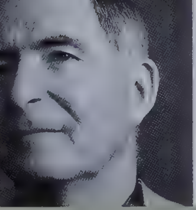
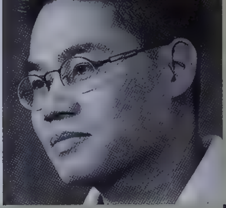
making a difference in communities where we operate

Bringing industry knowledge to the classroom CanadianOxy and Wascana Energy donated $1 million to the University of Regina in late 1997 to establish the Wascana Energy Petroleum Research Chair. The Chair will be located in the Faculty of Engineering where a new Petroleum Engineering Program has been established. Focused on heavy oil recovery processes, this research and teaching position is the only one of its kind in Canada.

Yemen scholarships In honour of CanadianOxy's tenth year of operations in Yemen, the Company announced a new education initiative in September 1997. CanadianOxy and its operating partners in Yemen will finance the post-secondary education of 20 Yemeni students at selected institutions in Canada.

The Tyrrell Museum CanadianOxy will contribute $200,000 over 10 years to the Royal Tyrrell Museum, located in Drumheller, Alberta. The funds will be put toward building a new interactive science hall for the museum. The museum is a spectacular combination of science, education, culture and entertainment for all who visit.

building partnerships based on mutual rewards

Aboriginal Business Development
Wascana Energy developed its Aboriginal Business Development program in 1995, responding to the growing ownership and stewardship roles that aboriginal communities play in Canada. A Statement of Principles drives the program for Relations with Aboriginal Communities, which outlines how the Company will work with its First Nations partners. Wascana Energy has entered into agreements with two First Nations since 1995: Onion Lake and Red Pheasant. Both joint ventures represent sound business opportunities for the long-term development of treaty lands.

Long-term relationships with aboriginal communities are built on trust and predictable, supportive action. Understanding is a critical component in maintaining successful relationships. The Statement of Principles provides us with a blueprint for cultural awareness training for employees, while communicating what behaviour First Nations people can expect from Wascana Energy.

taking care of what we value

Environment, Health and Safety
Environment, health and safety are an integral part of all our operations and business decision making, from initial planning to eventual remediation and abandonment of sites. We believe our business success is increasingly linked to strong performance in these areas. We are strong and committed advocates of voluntary initiatives such as the Responsible Care program, the National Emissions Reduction Masterplan, the multi-stakeholder Accelerated Reduction and Elimination of Toxics program, the Voluntary Challenge and Registry and numerous other initiatives directed at producing continuous improvement in environment, health and safety performance.

For more information about our performance in this area, contact CanandianOxy to receive a 1997 Environment, Health and Safety Annual Report.

thinking about people

People CanadianOxy began refining its company-wide people strategy in 1997. Just as our operational and financial strategies meet specific goals, CanadianOxy's people strategy will guide the Company in its efforts to recruit, retain, develop and reward people.

By continuing to revisit and refine the people strategy, CanadianOxy will do its part to ensure employees maximize their ability to create shareholder value. The strategy will also encourage employees to meet their professional and personal goals, while achieving Company targets. We believe an effective people strategy will be an important competitive advantage for our Company.


"In Yemen we board and inspect every vessel before it's loaded. If the vessel doesn't meet our safety standards, it doesn't carry Masila Crude. We don't do this because we have to, we do it because it's the right thing to do."

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following comprises the Management's Discussion and Analysis as contained in the Company's Annual Report on Form 10-K and additional information relating to funds flow from operations. This should be read in conjunction with the Consolidated Financial Statements included in this report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The impact of the significant differences between Canadian and United States accounting principles on the financial statements is disclosed in Note 15 to the Consolidated Financial Statements. Unless otherwise noted, tabular amounts are in millions of dollars, and sales and production volumes are before royalties.

BUSINESS ENVIRONMENT

World crude oil prices softened from the prior year. The West Texas Intermediate crude oil reference price ("WTI") averaged U.S. $20.61 per barrel as compared to U.S. $22.02 during 1996 and U.S. $18.40 during 1995. After entering 1997 in excess of U.S. $25 per barrel, WTI hovered around U.S. $20 for most of the year before falling below U.S. $17 as 1998 began. Canadian heavy oil differentials widened from the prior year reflecting increased supply being constrained by transportation and upgrading capacity limitations. The heavy oil differential averaged U.S. $6.41 per barrel as compared to U.S. $4.86 during 1996 and U.S. $3.99 during 1995.

North American natural gas prices were strong during 1997. In the United States, the New York Mercantile Exchange (NYMEX) spot price averaged U.S. $2.48 per mcf as compared to U.S. $2.50 in 1996 and U.S. $1.69 in 1995. In Canada, the Alberta spot price averaged $1.87 per mcf as compared to $1.54 in 1996 and $1.07 in 1995.

In the chemicals industry, continued weakness in the pulp and paper industry caused reductions in sodium chlorate and caustic soda prices during 1997. Sodium chlorate and caustic soda prices decreased five and 18 per cent, respectively, from 1996. A strong PVC market in the United States pushed chlorine prices up 34 per cent over 1996.

The Canadian dollar relative to the United States dollar averaged U.S. $0.7223 before weakening to U.S. $0.6991 at year end. During 1996 and 1995, the Canadian dollar averaged U.S. $0.7334 and U.S. $0.7285, respectively. Interest rates in Canada and the United States declined to their lowest levels in years.

OVERVIEW OF 1997

CanadianOxy demonstrated strong operating and financial performance, achieving record levels of production, funds flow from operations and capital expenditures. These results reflected the inclusion of Wascana Energy Inc. ("Wascana") commencing April 15, 1997, and operating and drilling success primarily in Yemen, Canada and the United States. Net income declined from 1996 reflecting the non-tax deductibility of depletion associated with the Wascana acquisition, and higher exploration expense.

The acquisition of Wascana enhances the Company's strategy of pursuing a balanced portfolio of activities directed to providing near-term and long-term growth. The Wascana operations made a positive contribution to funds flow from operations, while providing geographic balance to the Company's operations and a significant portfolio of undeveloped acreage in western Canada for exploration and development over the next few years. At the same time, the Company plans to continue its strategy of exploring, developing and optimizing existing assets while continuing to capture and carry out high-impact exploration activities on opportunities around the world.

OPERATING SEGMENTS

The following discussion of CanadianOxy's operating segments should be read in conjunction with Note 14 to the Consolidated Financial Statements. Segment operating results exclude financing related items, unallocated selling, administrative and other expenses, and income taxes.

Yemen

	1997		1996		1995	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales[1] and Prices (mbbls/d and $/bbl)	99.2	$ 25.60	90.7	$ 27.42	90.9	$ 22.99
Net Sales		$ 497		$ 522		$ 499
Operating Profit		$ 279		$ 268		$ 206
Capital Expenditures		$ 49		$ 156		$ 67

Note:
[1] Production volumes were 98.6 mbbls/d (1996 – 92.1 mbbls/d; 1995 – 90.3 mbbls/d). Sales volumes differ from production volumes due to the timing of tanker loadings.

Production volumes achieved an annual record of 189,600 barrels per day ("bbls/d") (98,600 bbls/d net to CanadianOxy). Increased production resulted from development drilling in the Tawila and Camaal Fields, a new field discovery at Dahban and increased fluids handling capabilities. Increased production in 1996 over 1995 similarly reflected successful development drilling and the expansion of facilities to handle an increase in total fluids produced. The average price received for Masila Blend crude oil reflects world crude oil price fluctuations as the Company generally sells under short-term contracts.

Under the terms of the production sharing agreement, production is divided into cost recovery oil and profit oil. Cost recovery oil provides for the non-government participants' recovery of operating, exploration and development costs over one, four and six years, respectively, to a maximum of 40 per cent of production during each fiscal year. Profit oil is that portion of production remaining after deducting cost recovery oil and is shared on a sliding scale basis amongst the Government of Yemen and the participants based on production rates. The amount of cost recovery oil available each year is dependent upon the costs available for recovery and the price received for each barrel of oil.

Under the Company's accounting policy as described in Note 1 to the Consolidated Financial Statements, the carried interest component of cost recovery oil revenue is offset by operating costs and depreciation and depletion thereby not contributing to operating profit or net income. As cost recovery oil declines, the related increase in profit oil results in increased operating profit which is offset by an increase in income taxes paid.

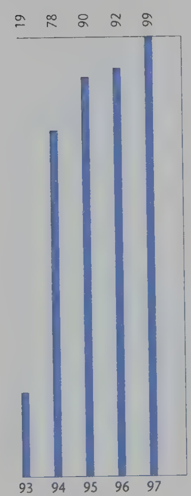
Net sales decreased from 1996 due to a reduction in cost recovery oil and lower crude oil prices, partially offset by an increase in profit oil from lower cost recovery oil and higher sales volumes. Operating profit increased due to lower depreciation and depletion resulting from reduced cost recovery oil and the addition of proved reserves during the year, partially offset by higher volumes. In 1996, net sales increased over

1995 as lower cost recovery oil was more than offset by increases in profit oil from lower cost recovery oil and crude oil prices. Operating profit increased with higher net sales and lower depreciation and depletion related to reduced cost recovery oil.

In 1997, CanadianOxy received approximately 22 per cent of the Masila Project's production with the balance going to the Government of Yemen and the other participants. In 1996 and 1995, CanadianOxy received 24 and 29 per cent of the production, respectively. The decreases reflected the reduction in cost recovery oil. Based on past unrecovered capital expenditures and 1998 budgeted expenditures, production and prices, the Company estimates that cost recovery oil revenue and its share of production will approximate 1997 levels.

Capital expenditures during the past three years related to development drilling and expansion of facilities to handle an increase in total fluids produced. In 1996, expenditures also included the Company's $107 million share of the payment to the Government of Yemen which provided for prepayment of and release from further obligation regarding future dismantlement and site restoration costs, entitlement to revenues for transportation of production from nearby fields, and approval of all costs incurred through December 31, 1995 as recoverable costs.

yemen daily production
(thousands of barrels)



Canada

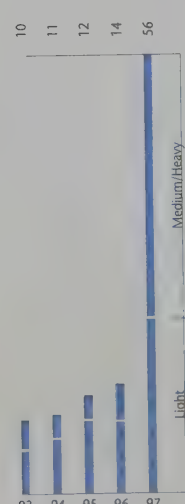
	1997		1996		1995	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil and Natural Gas Liquids Sales[(1)]						
and Prices (mbbls/d and $/bbl)						
Light	22.1[(2)]	$ 24.67	9.1	$ 26.48	9.3	$ 20.38
Medium/Heavy	33.5[(2)]	$ 14.96	4.7	$ 20.49	3.1	$ 17.60
Natural Gas Sales[(1)] and Prices						
(mmcf/d and $/mcf)	256[(2)]	$ 1.81	127	$ 1.56	134	$ 1.18
Net Sales[(1)]		$ 449		$ 163		$ 128
Operating Profit[(1)]		$ 17		$ 29		$ 14
Capital Expenditures[(1)]		$ 456		$ 153		$ 98

Notes:

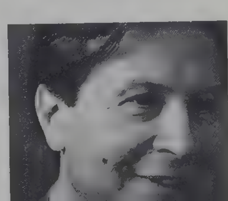
(1) Pursuant to the purchase method of accounting for the Wascana acquisition, Wascana's operations are included commencing April 15, 1997. Certain pro forma information showing the impact as if the acquisition had occurred on January 1, 1997 and 1996 is included in Note 3 to the Consolidated Financial Statements.

(2) Daily production reflects post-acquisition production averaged over 365 days. Actual daily production during the period from April 15, 1997 to December 31, 1997 averaged 27.5 mbbls/d of light oil, 9.1 mbbls/d of medium oil and 35.3 mbbls/d of heavy oil and 315 mmcf/d of natural gas. The medium oil properties were sold effective December 1, 1997 for proceeds of $308 million.

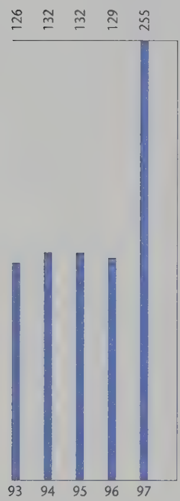
canada daily crude oil production
(thousands of barrels)



Operations grew substantially due to the Wascana acquisition and the intensive capital expenditure program which followed. Volumes acquired at the time of acquisition contributed 13.3 mbbls/d of light oil, 25.1 mbbls/d of medium/heavy oil and 156 mmcf/d of natural gas to the 1997 daily average. Exploration and development activities resulted in increased reserves and production.



canada daily natural gas production
(millions of cubic feet)



CanadianOxy's crude oil production is substantially all sold under short-term contracts thereby exposing it to world crude oil price fluctuations. Medium and heavy oil are also affected by Canadian heavy oil differentials which widened during 1997 and the increased cost of condensate mixed with heavy oil to enable it to be transported.

CanadianOxy's natural gas production is also sold under short-term contracts. Approximately 30 and 70 per cent of the natural gas sold during 1997 was based on the NYMEX and Alberta spot pricing, respectively. During 1996 and 1995, substantially all of the natural gas sold was based on Alberta spot pricing.

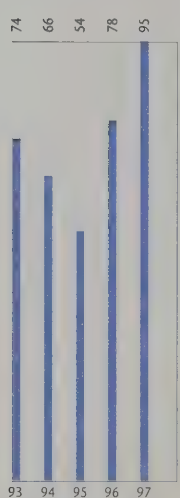
Net sales increased as higher crude oil and natural gas volumes and higher natural gas prices were partially offset by lower crude oil prices. Operating profit declined as the depletion rate per barrel of oil equivalent increased to $7.46 from $6.57 in 1996 as a result of the Wascana acquisition. The rate, which is calculated based upon proved reserves, is expected to decrease in the future as probable reserves acquired in the acquisition are converted to proved reserves. Operating profit was also impacted by higher exploration expense related to increased exploration activities.

Net sales in 1996 increased over 1995 as a result of higher crude oil production and commodity prices. Higher operating profit reflected improved prices offset by higher exploration expense.

United States

	1997		1996		1995	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales and Prices						
(mbbls/d and $/bbl)	12.7	$ 27.32	13.4	$ 29.43	11.7	$ 23.91
Natural Gas Sales and Prices						
(mmcf/d and $/mcf)	95	$ 3.73	78	$ 4.04	54	$ 2.67
Net Sales		$ 212		$ 214		$ 127
Operating Profit		$ 60		$ 56		$ 43
Capital Expenditures		$ 166		$ 161		$ 130

united states daily gas production
(millions of cubic feet)

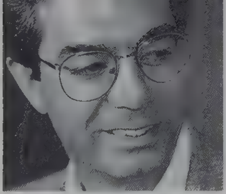


Operations during the three years primarily reflected the impact of property acquisitions at Vermilion in October 1996 ($66 million) and Eugene Island in October 1995 ($61 million), and the subsequent exploitation of these properties. During 1997, crude oil and natural gas volumes were negatively affected by non-core property dispositions, platform downtime for maintenance and well tie-ins, and project delays due to rig shortages.

Prices received are consistent with fluctuations in world crude oil prices and the NYMEX natural gas price as the majority of production is sold under short-term contracts.

Net sales remained relatively unchanged from 1996 as natural gas volume increases were offset by lower crude oil volumes and commodity prices. Increased operating profit reflected a U.S. $8 million settlement of a natural gas contract. In 1996, net sales increased significantly over 1995 due to price improvements and volume increases. Operating profit increased less dramatically as higher net sales were partially offset by higher operating costs and depletion charges related to increased volumes, and higher exploration expense.

The nature of the capital expenditures changed during the three years. In 1995 and 1996, a large portion of the expenditures related to the property acquisitions. In 1996 and 1997, development expenditures grew significantly as the Company commenced



exploitation activities on the acquired properties. In addition, exploration expenditures have been increasing steadily as the Company acquires and commences exploration on undeveloped acreage in the shallow and moderately deeper waters of the Gulf of Mexico.

North Sea

	1997			1996			1995		
	Volume		Amount	Volume		Amount	Volume		Amount
Natural Gas Sales and Prices									
(mmcf/d and $/mcf)	**38**	**$**	**5.02**	37	$	4.61	36	$	4.47
Net Sales		**$**	**69**		$	60		$	59
Operating Profit (Loss)		**$**	**21**		$	(5)		$	9
Capital Expenditures		**$**	**30**		$	34		$	24

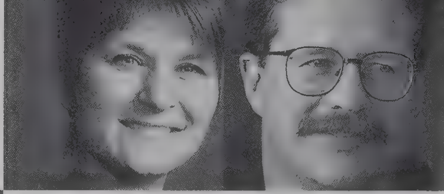
Natural gas is sold under long-term contracts which cover the life of the fields. Purchasers control the amount and timing of purchases but are obligated to purchase prescribed minimum volumes during each contract year. Prices are redetermined periodically in accordance with a formula based upon reference indices. The nature of these contracts together with the availability of natural gas at lower spot market prices have resulted in purchasers acquiring natural gas from the Company at take-or-pay levels.

While net sales have been increasing with higher prices and volumes, operating profit has fluctuated with changes in exploration activities. Capital expenditures in 1997 included costs relating to an exploration well for which the Company is awaiting written confirmation from regulatory authorities that it is an extension of an existing field. Capital expenditures in 1997 and 1996 also included the installation of compression facilities on the Caister-Murdoch pipeline in order to transport additional third party natural gas. In 1996, exploration expense related to unsuccessful drilling of new structures in the Cavendish and Caister Fields. In 1995, exploration expense included expenditures relating to a three-dimensional seismic program over several exploration blocks.

Other Countries

	1997			1996			1995		
	Volume		Amount	Volume		Amount	Volume		Amount
Crude Oil Sales and Prices									
(mbbls/d and $/bbl)	**4.6**	**$**	**16.10**	3.8	$	16.16	4.7	$	14.24
Net Sales		**$**	**24**		$	21		$	23
Operating Loss		**$**	**(89)**		$	(55)		$	(27)
Capital Expenditures		**$**	**168**		$	72		$	35

Crude oil volumes and net sales related to producing properties in Ecuador, and in Venezuela from April 15, 1997 to December 1, 1997 (date of disposition). The operating loss reflected exploration expenditures on projects in various countries worldwide.

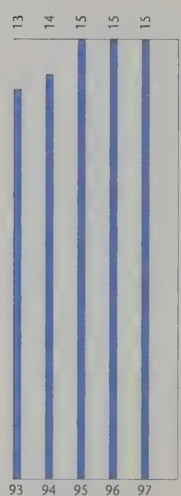


As part of its long-term growth strategy, CanadianOxy pursues high-impact exploration opportunities. The operating loss reflected exploration expense from expenditures relating to the acquisition of seismic data, unsuccessful exploration drilling and business development activities. During 1997, exploration expense consisted primarily of unsuccessful exploration wells in Indonesia, Vietnam and Australia, and the acquisition of seismic data in Colombia. During 1996, exploration expense consisted of two unsuccessful exploration wells in Nigeria and the amortization of capitalized costs, and in 1995, it included two unsuccessful wells in Indonesia and Romania. During 1997, capital expenditures also included expenditures relating to the construction of facilities and development drilling on the Ejulebe Field in the offshore waters of Nigeria.

Alternate Fuels

	1997		1996		1995	
	Volume	Amount	Volume	Amount	Volume	Amount
Synthetic Crude Oil Sales and Prices						
(mbbls/d and $/bbl)	**15.0**	**$ 28.19**	14.5	$ 29.44	14.6	$ 23.91
Net Sales		**$ 140**		$ 127		$ 111
Operating Profit		**$ 49**		$ 39		$ 35
Capital Expenditures		**$ 26**		$ 16		$ 15

synthetic daily crude oil production
(thousands of barrels)



Profitability is primarily dependent on the prices received for synthetic crude oil, volumes produced, the net profits interest payment to the Province of Alberta and production costs. During 1997, net sales increased due to record sales levels and a reduction in the net profits interest payment, partially offset by lower prices received as the majority of production is sold under short-term contracts. The net profits interest payment decreased to nine per cent of gross revenues, down from 19 per cent in 1996 and 13 per cent in 1995 reflecting the transition to generic royalty terms commencing January 1, 1997. Production costs increased slightly averaging $13.93 per barrel as compared to $13.85 in 1996 and $13.96 in 1995. The increase was primarily attributable to startup costs for the North Mine which commenced production in late 1997.

Marketing

CanadianOxy is involved in various crude oil and natural gas marketing activities intended to enhance its oil and gas operations through greater customer satisfaction and market diversification, economies of scale and improved transportation access. The Company enters into contracts to purchase and sell crude oil and natural gas in order to gain control over larger quantities than is available from its proprietary production. This activity exposes the Company to commodity price risk between the time contracted volumes are purchased and sold. This risk is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, swaps and options traded on the NYMEX. Occasionally, open positions may exist where not all contracted purchases and sales have been matched in order to take advantage of market differences. The extent of exposure under these activities is restricted to prescribed limits and is monitored by a daily value-at-risk calculation as described under the heading "Financial Risk Exposures and Management – Commodity Price Risk".

Prior to the Wascana acquisition, CanadianOxy was involved in the marketing of third party crude oil through a 50 per cent interest in a partnership arrangement. Following the acquisition, CanadianOxy acquired the partner's interest and combined the activities with the Wascana marketing operations.

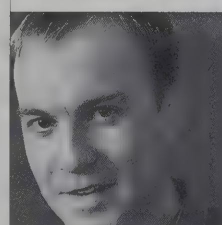
Subsequent to April 15, 1997, CanadianOxy marketed 163,000 bbls/d of crude oil and 1.5 billion cubic feet per day ("bcf/d") of natural gas, of which 101,000 bbls/d and 1.2 bcf/d were acquired from third parties. Net revenue from these activities, including the related derivative instruments, was $9 million. Prior to April 15, 1997, the Company's share of net revenue from such marketing activities was not significant.

CanadianOxy also earns fee-based revenues from its ownership interest in various regional pipelines in western Canada, from marketing natural gas on behalf of others and from making its long-term pipeline capacity commitments available to third parties. Revenues generated from these activities were not significant in 1997.

Consistent with the Company's intention and management regarding the revenues to be derived from its marketing activities, CanadianOxy records the sales and cost of sales on a net basis and includes such amount in "Marketing, Interest and Other Income" in the Consolidated Statement of Income. Related accounts receivable and accounts payable are recorded in the Consolidated Balance Sheet on a gross basis reflecting the full extent of CanadianOxy's exposure to credit risk and its obligations.

Chemicals

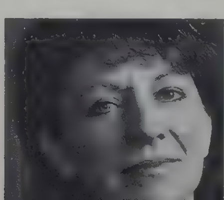
	1997	1996	1995
Production (thousand short tons)			
Sodium chlorate	**383**	349	278
Chlor-alkali[1]	**352**	325	334
Sales (thousand short tons)			
Sodium chlorate	**385**	349	283
Chlor-alkali[1]	**334**	318	319
Sales	$ **260**	$ 255	$ 233
Operating Profit	$ **56**	$ 66	$ 48
Capital Expenditures	$ **18**	$ 36	$ 52



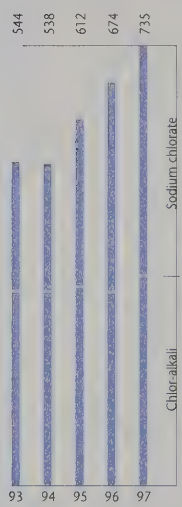
Note:
(1) Sales volumes differ from production volumes primarily due to the use of chlorine in the production of muriatic acid.

CanadianOxy manufactures sodium chlorate and chlor-alkali (caustic soda, chlorine and muriatic acid) in Canada and sodium chlorate in the United States. Sodium chlorate and caustic soda are sold primarily to the North American pulp and paper industry, and chlorine is sold to the pulp and paper, water treatment and PVC industries.

During the past three years, the sodium chlorate operations have grown through plant expansions and acquisitions. In mid-1995, CanadianOxy combined its chemicals operations with Occidental Petroleum Corporation's ("Occidental") sodium chlorate operations, and at the end of 1995, acquired a sodium chlorate facility in Beauharnois. Capital expenditures include maintenance capital and facility modernizations and expansions at Taft, Bruderheim and Brandon which commenced in mid-1995 and were completed in mid-1996.



chemicals production
(thousand short tons)



Sodium chlorate sales volumes have risen over the past three years consistent with the expansions and acquisitions. In 1997 and 1996, sales increases were impacted by lower operating rates in the pulp and paper industry. Chlor-alkali production and sales increased during 1997 as a result of reduced plant downtime and strong demand for chlorine from the United States PVC market.

During 1997, increased sales volumes resulted in higher sales, however, operating profit was lower due to a reduction in caustic soda and sodium chlorate prices and a $6 million write-off of a receivable from a pulp and paper customer. The growth in operating profit in 1996 over 1995 reflected increased sales and the effects of a write-down in carrying value in 1995 related to the divestiture of a specialty chemicals operation.

A collective bargaining agreement covering employees at North Vancouver is currently being negotiated. Agreements covering remaining unionized employees are in place through 1999.

CONSOLIDATED RESULTS OF OPERATIONS

Funds flow from operations was $865 million ($6.34 per common share) as compared to $766 million ($5.64 per common share) in 1996 and $630 million ($4.68 per common share) in 1995. Funds flow from operations is defined as the sum of "Net Income", "Charges and Credits to Income not Involving Cash" and "Exploration Expense". The increase over 1996 reflected a positive contribution from the Wascana acquisition and increased crude oil and natural gas volumes in Yemen, Canada and the United States, which more than offset lower crude oil prices.

Net income was $139 million ($1.02 per common share) as compared to $190 million ($1.40 per common share) in 1996 and $141 million ($1.05 per common share) in 1995. The decrease from 1996 reflected the non-tax deductibility of depletion associated with the Wascana acquisition, and higher exploration expense.

consolidated funds flow from operations
(millions of dollars)

Net Sales

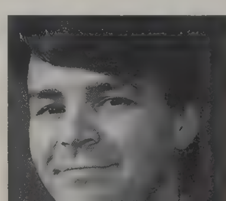
The increase in net sales was attributable to the following:

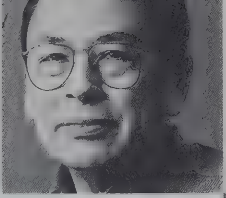
		1997 vs. 1996	1996 vs. 1995
Crude Oil	Price	$ (41)	$ 111
	Volume[1]	261	17
	Yemen cost recovery[2]	(29)	(32)
Natural Gas	Price	12	46
	Volume[1]	81	18
Chemicals	Price	(12)	10
	Volume	17	12
Asphalt and related by-products		30	–
Increase in net sales over prior year		$ 319	$ 182

Notes:

(1) Includes the impact of the Wascana acquisition.

(2) Reflects the change in cost recovery oil due to reduced costs available for recovery in the year net of the related increase in profit oil.





Gain on Disposition of Assets

Gains primarily related to the disposition of properties in Canada. In 1996, the gains related to the disposition of properties in Canada and the United States and, in 1995, to the disposition of properties in Canada and the sale of certain oil sands leases.

Marketing, Interest and Other Income

Marketing, interest and other income consists of net revenue from marketing activities, processing fee revenues in Canada, interest income and one-time income items. The increase in 1997 reflected $17 million of marketing related income, proceeds from the settlement of a United States natural gas contract and increased interest income.

Cost of Sales

On a barrel of oil equivalent basis, conventional production costs were $3.28 as compared to $2.46 in 1996 and $2.40 in 1995. The increase in 1997 reflected a significantly higher proportion of Canadian production volumes including higher cost heavy oil volumes and increased costs for items such as service rigs and field supplies.

Selling, Administrative and Other

Selling, administrative and other increased over 1996 and 1995 levels due to increased staffing levels and related costs arising from the Wascana acquisition and the increased capital expenditure program.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization increased over 1996 due to higher sales volumes and an increase in the depletion rate per barrel of oil equivalent resulting from the purchase of probable reserves in the Wascana acquisition, partially offset by reduced cost recovery oil and the addition of proved reserves in Yemen. The increase in 1996 over 1995 was due to an increase in sales volumes and development capital expenditures, partially offset by lower depletion associated with reduced cost recovery oil in Yemen.

Exploration Expense

CanadianOxy's near-term and long-term growth strategy requires the Company to continually explore for new sources of reserves and production. During the past few years, CanadianOxy has built a large portfolio of exploration opportunities worldwide including low risk opportunities in Canada and the United States, and high-impact international prospects. The Company has moved into a phase of active exploration of these prospects resulting in an increase in expenditures for seismic data and exploration drilling. The increasing trend in exploration expense reflects these activities.

In 1997, exploration expense included $45 million for seismic data and $66 million of unsuccessful exploration drilling. In 1996, it included $28 million for seismic data and $64 million of unsuccessful exploration drilling. In 1995, it included $15 million for seismic data and $17 million of unsuccessful exploration drilling.

Interest Expense

Interest expense increased significantly over 1996 reflecting increased levels of indebtedness associated with the Wascana acquisition, offset somewhat by lower variable interest rates on long-term debt. At December 31, 1997, CanadianOxy had fixed the interest rates for varying periods on 36 per cent of its long-term debt at an effective rate of 6.9 per cent. Lower interest expense during 1996 as compared to 1995 reflected declining levels of outstanding indebtedness. No interest expense was capitalized during the three years.

Provision for Income Taxes

The effective tax rate was 50.0 per cent in 1997 as compared to 40.4 per cent in 1996 and 41.2 per cent in 1995. The higher rate in 1997 reflected the non-tax deductibility of a portion of the depletion associated with the Wascana acquisition. Additional information regarding the variations from the expected tax rate is provided in Note 12 to the Consolidated Financial Statements.

Current income taxes are paid in Yemen, the United States and the United Kingdom. In addition, Alternative Minimum Tax is paid in the United States and Large Corporation Tax is paid in Canada.

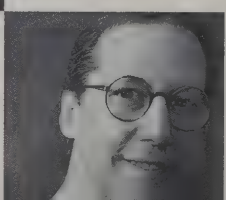
LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operating activities was $877 million as compared to $768 million in 1996 and $611 million in 1995. This reflected the increase in net income before non-cash items and exploration expense. As cash generated from operating activities increases, related accounts receivable also increase reflecting the delay in collecting the related cash. CanadianOxy minimized this increase by selling accounts receivable in the amounts of $100 million, $34 million and $52 million at December 31, 1997, 1996 and 1995, respectively. In effect, these sales advance the collection of non-interest bearing receivables which are used to reduce interest-bearing obligations.

Investing activities used cash of $2,062 million as compared to $583 million in 1996 and $414 million in 1995. This significant increase reflected the acquisition of Wascana for $1,680 million (net of cash acquired) and an increase in capital expenditures, partially offset by an increase in proceeds received from the sale of non-core properties and an increase in accounts payable relating to higher year end capital accruals.

Financing activities generated net cash of $1,178 million. Approximately $1,722 million was required to fund the Wascana acquisition, while cash generated from operating activities and property dispositions in excess of capital expenditures was used primarily to reduce long-term debt including approximately $200 million of maturing obligations.

At December 31, 1997, the Company had cash and short-term investments of $121 million and working capital of $24 million. Long-term debt totalled $2,167 million of which $101 million is scheduled for repayment in 1998 and $266 million in 1999. The Company intends to refinance the 1998 repayments through existing long-term facilities and, accordingly, such amounts were not included in current liabilities. The Company has unused committed long-term lines of credit of approximately $627 million, undrawn short-term operating loan facilities of $283 million and a commercial paper program of $500 million which is supported by unused lines of credit. There are no provisions under existing debt agreements that restrict the ability to move funds amongst operating entities.



During 1997, the Company filed a shelf prospectus with Canadian securities regulatory authorities to issue from time to time to June 1999 up to $600 million principal amount of unsecured redeemable medium term notes. The Company issued $275 million under this program. In February 1998, the Company filed a shelf prospectus with Canadian and United States securities regulatory authorities to issue from time to time to February 2000 up to U.S. $500 million principal amount of unsecured redeemable debt securities. Proceeds of any offering under either shelf prospectus are intended to be used to repay existing long-term debt but may also be used for general corporate purposes.

The Company declared common share dividends of $0.30 per common share in 1997 as compared to $0.30 and $0.225 in 1996 and 1995, respectively.

FOREIGN INVESTMENTS

Portions of CanadianOxy's assets are located in countries outside North America some of which may be considered politically and economically unstable. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is CanadianOxy's policy to conduct its business so as to minimize such risks. At December 31, 1997, the carrying value of CanadianOxy's identifiable assets in countries outside North America aggregated approximately $861 million or 19 per cent of the Company's total assets.

The United States dollar is the functional currency of the Company's foreign operations except in the United Kingdom. Capital expenditures, operating costs and revenues earned in these foreign locations are principally transacted in United States dollars or United Kingdom pounds sterling. The Company has no material exposure to highly inflationary foreign currencies. In addition, there are no restrictions on accessing cash generated in any foreign operation.

FINANCIAL RISK EXPOSURES AND MANAGEMENT

In the normal course of its business, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates, interest rates and commodity prices. CanadianOxy manages these risks by operating in a manner intended to minimize its exposure to the extent practical, and through the periodic use of derivative financial instruments and derivative commodity instruments (collectively "derivative instruments"). The Company's financial risk profile at December 31, 1997 and its management thereof are described in Note 7 to the Consolidated Financial Statements.

CanadianOxy has formal written policies relating to the use of derivative instruments. The exposure relating to outstanding derivative instruments held in connection with the marketing activities is restricted to prescribed limits and is monitored by a daily value-at-risk calculation. The use of derivative instruments for other purposes must be approved by the Chief Executive Officer and, in excess of prescribed limits, by the Board of Directors. The Finance Committee of the Board of Directors reviews the results of derivative activities and all outstanding positions at each meeting.

Foreign Currency Rate Risk

A substantial portion of CanadianOxy's operations are exposed to short-term fluctuations in the Canadian to United States dollar exchange rate. Revenues, operating costs and capital expenditures of foreign operations are principally denominated in United States dollars. In addition, crude oil and a portion of natural gas prices received from Canadian based operations are referenced to United States dollar denominated prices. CanadianOxy's net investments in foreign operations are exposed to longer-term fluctuations in the exchange rate.

The Company manages its exposure to exchange rate fluctuations by generally matching United States dollar denominated cash inflows with similarly denominated cash requirements. Since the timing of cash inflows and outflows is not necessarily interrelated, particularly for capital expenditures, CanadianOxy maintains revolving United States dollar borrowing facilities which can be utilized or repaid depending on the net cash flow requirements. In addition, CanadianOxy maintains long-term United States dollar denominated borrowings which it designates as a hedge against its net investments in foreign operations. CanadianOxy occasionally utilizes derivative financial instruments to effectively convert future cash flows from Canadian to United States dollars or vice versa. Information regarding CanadianOxy's foreign currency net investments, borrowings and related derivative financial instruments is provided in Note 7 to the Consolidated Financial Statements.

Based on the foreign exchange rate, results of operations, and levels of production and borrowings at and for the year ended December 31, 1997, a one cent decrease in the Canadian to United States dollar exchange rate would have increased net income by approximately $6 million.

Interest Rate Risk

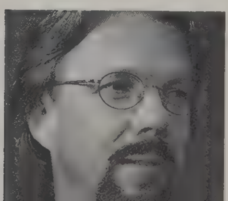
CanadianOxy is exposed to fluctuations in short-term Canadian interest rates as a result of the use of floating rate debt and, to a lesser extent, the use of derivative financial instruments as their market value is sensitive to interest rate fluctuations. The Company maintains a substantial portion of its debt capacity in revolving, floating rate bank facilities with the remainder issued in fixed rate borrowings. To minimize its exposure to interest rate fluctuations, the Company occasionally enters into interest rate swap agreements and exchange contracts to effectively fix the interest rate on floating rate debt.

At December 31, 1997, the Company had approximately $1,395 million of floating rate long-term debt and $45 million of short-term borrowings. This substantial increase over 1996 was due to the Wascana acquisition which was financed by revolving, floating rate bank facilities.

Based on CanadianOxy's floating rate long-term debt, short-term borrowings and derivative financial instruments at December 31, 1997, a one per cent increase in interest rates would have decreased net income by approximately $8 million.

Commodity Price Risk

Prices received for crude oil and natural gas are impacted in varying degrees by factors outside the Company's control. Crude oil prices are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. In addition, quality differential price adjustments are also influenced by local market supply and demand fundamentals. Natural gas prices are generally influenced by local market supply and demand fundamentals although Canadian and United States markets are expected to become more closely linked as new export capacity is added in Canada in late 1998. The majority of the Company's production is sold under short-term contracts thereby exposing CanadianOxy to short-term price movements. As described in Note 7 to the Consolidated Financial Statements, CanadianOxy may occasionally use derivative financial instruments in its management of such risks.



Based on the results of operations, production levels and the Canadian to United States dollar exchange rate at and for the year ended December 31, 1997, a U.S. $1.00/bbl decrease in crude oil prices received would have decreased net income by approximately $31 million, and a U.S. $0.10/mcf decrease in North American natural gas prices received would have decreased net income by approximately $8 million.

The marketing activities also expose the Company to commodity price risk. The exposure is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, swaps and options traded on the NYMEX. The extent of exposure is restricted to prescribed limits and is monitored by a daily value-at-risk ("VAR") calculation which assesses the potential loss that may arise from adverse changes in market factors for a specified time period and confidence level. The Company's VAR calculation uses a two-day time period, representing the time period necessary to unwind a position, and a 97.7 per cent confidence level.

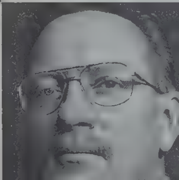
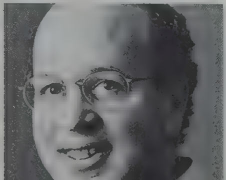
At December 31, 1997, the VAR for the marketing activities was $7 million and ranged from a low of $6 million to a high of $12 million during 1997. VAR does not represent the maximum possible loss, nor is it necessarily indicative of actual results which may occur.

ENVIRONMENTAL EXPENDITURES

The Company's worldwide operations are subject to increasingly stringent government laws and regulations. These laws and regulations generally require the Company to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the disposal or release of specified substances. The Company operates in a manner intended to ensure that its projects around the world meet appropriate North American or western European environmental standards and believes that its operations comply in all material respects with applicable environment regulations.

Of significance to the chemicals operations are regulations which apply to its pulp and paper customers. In British Columbia, current regulations allow discharge of 1.5 kg of adsorbable organically-bound halogens ("AOX") per tonne of pulp produced. This limit decreases to zero in 2002. Consequently, the use of chlorine as a bleaching agent is under pressure as customers move to elemental chlorine-free pulp bleaching. Other Canadian provinces and the United States have established more reasonable, science-based AOX levels which the pulp and paper industry can meet with the use of sodium chlorate as the bleaching agent. The chemicals industry is working with the Canadian Chlorine Coordinating Committee, the Chlorine Chemistry Council and the pulp and paper industry to have the Province of British Columbia reassess its position. The Government of Canada is working with the industry to manage, rather than eliminate, the use of chlorinated substances.



At December 31, 1997, $147 million has been provided in the accounts for future dismantlement and site restoration costs which are currently estimated to be approximately $300 million for all of CanadianOxy's oil and gas and chemicals facilities. The Company periodically performs internal and external assessments of its operations and adjusts its estimate and annual allowance accordingly. During 1997, CanadianOxy recorded an allowance for future dismantlement and site restoration costs of $20 million (1996 – $16 million). Actual capital expenditures for the year amounted to $7 million (1996 – $5 million). It is anticipated that the allowance and actual expenditures in 1998 will not significantly differ from 1997 amounts.

YEAR 2000 READINESS

CanadianOxy has established a project team to coordinate its efforts to assess its exposures and to remediate any computer-related problems pertaining to the Year 2000 century change. The project team is comprised of dedicated employees and various external consultants. It reports regularly to an executive steering committee and the Audit and Conduct Review Committee of the Board of Directors reviews the project plan, findings, progress and cost estimates at each meeting.

During 1997, the Company commenced an employee awareness program, compiled an inventory of information systems and automated operating processes which may be impacted, and completed an assessment of the risk of failure and its potential business impact, in order to establish remediation priorities. In March 1998, the Company plans to commence testing and remediation efforts as necessary, and to assess its business associates' exposures and compliance efforts. It is expected that testing and remediation activities will be completed by the end of 1998. During 1999, plans are to monitor systems and processes to ensure they are properly functioning and to develop contingency plans.

Approximately $1 million of costs incurred to date were recorded as operating costs. Future costs are estimated to be approximately $10 million. These costs will be recorded as either operating or capital costs depending on their nature.

OUTLOOK

The Company expects 1998 crude oil and natural gas production to increase approximately eight and 19 per cent, respectively, over 1997 primarily as a result of including a full year impact of the Wascana acquisition. Actual 1998 production will depend upon numerous factors including capital expenditures, drilling success and availability of transportation. Due to the numerous and complex factors influencing crude oil and natural gas prices, CanadianOxy is unable to predict with certainty the direction, magnitude or impact of future trends in prices.

Capital expenditures for 1998 are budgeted to be approximately $800 million. Approximately 95 per cent is expected to be spent on oil and gas activities of which 30 per cent relates to exploration projects. Development expenditures are budgeted primarily for projects in Canada, Yemen, the United States, Nigeria and Australia. Exploration expenditures are budgeted primarily for projects in Canada, the United States, Indonesia and Colombia. Chemicals expenditures are budgeted primarily for maintenance, safety and environmental matters. CanadianOxy expects to finance its capital program using cash generated from operating activities and existing borrowing capacity, although property dispositions may also be used under the appropriate circumstances.

Report of Management

The Management of Canadian Occidental Petroleum Ltd. ("CanadianOxy") is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements present fairly the consolidated financial position, results of operations and cash flows of CanadianOxy. The financial information contained elsewhere in this report has been reviewed to ensure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, CanadianOxy has established accounting and reporting systems supported by internal controls and an internal audit program. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

VICTOR J. ZALESCHUK
President and
Chief Executive Officer

MARVIN F. ROMANOW
Vice-President, Finance and
Chief Financial Officer

February 17, 1998

Auditors' Report

To the Shareholders of Canadian Occidental Petroleum Ltd.

We have audited the consolidated balance sheet of Canadian Occidental Petroleum Ltd. as at December 31, 1997 and 1996 and the consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in accordance with generally accepted accounting principles in Canada.

Arthur Andersen & Co.

Calgary, Alberta
February 17, 1998

ARTHUR ANDERSEN & CO.
Chartered Accountants

Consolidated Statement of Income

for the three years ended December 31, 1997

(millions except per share data)	1997	1996	1995
Revenues			
Net Sales	$ 1,681	$ 1,362	$ 1,180
Gain on Disposition of Assets	12	18	23
Marketing, Interest and Other Income	72	18	25
	1,765	1,398	1,228
Costs and Expenses			
Cost of Sales	515	379	363
Selling, Administrative and Other	121	74	75
Depreciation (Note 6)	102	92	84
Depletion and Amortization (Note 6)	487	360	355
Exploration	148	119	49
Interest, Net (Note 8)	114	55	62
	1,487	1,079	988
Income Before Income Taxes	278	319	240
Provision for Income Taxes (Note 12)	139	129	99
Net Income	$ 139	$ 190	$ 141
Net Income Per Common Share	$ 1.02	$ 1.40	$ 1.05

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1997 and 1996

(millions)	1997	1996
ASSETS		
Current Assets		
Cash and Short-Term Investments	$ 121	$ 109
Accounts Receivable (Note 4)	462	242
Income Taxes Receivable	13	4
Inventories and Supplies (Note 5)	79	62
Prepaid Expenses	19	11
Total Current Assets	694	428
Property, Plant and Equipment (Note 6)	3,814	1,955
Deferred Charges and Other Assets	39	21
	$ 4,547	$ 2,404
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 8)	$ 45	$ –
Accounts Payable and Accrued Liabilities	587	270
Income Taxes Payable	16	7
Accrued Interest Payable	12	11
Dividends Payable	10	10
Total Current Liabilities	670	298
Long-Term Debt (Note 8)	2,167	572
Deferred Income Taxes	217	197
Dismantlement and Site Restoration Allowance	147	117
Other Deferred Credits and Liabilities	51	53
Minority Interest (Note 3)	45	44
Shareholders' Equity		
Common Shares, no Par Value (Note 9)		
Authorized: Unlimited		
Outstanding: 1997 – 136,610,426 shares		
1996 – 136,155,052 shares	325	314
Contributed Surplus	14	14
Retained Earnings	813	715
Cumulative Foreign Currency Translation Adjustment	98	80
Total Shareholders' Equity	1,250	1,123
Contingencies (Note 10)		
	$ 4,547	$ 2,404

Approved on Behalf of the Board:

Director

Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

for the three years ended December 31, 1997

(millions)	1997	1996	1995
Operating Activities			
Net Income	$ 139	$ 190	$ 141
Charges and Credits to Income not Involving Cash (Note 13)	578	457	440
Exploration Expense	148	119	49
Changes in Non-Cash Working Capital (Note 13)	23	6	(23)
Other	(11)	(4)	4
	877	768	611
Financing Activities			
Proceeds from Long-Term Debt	2,353	495	61
Repayment of Long-Term Debt	(1,179)	(594)	(286)
Net Proceeds from Short-Term Borrowings	45	–	(6)
Dividends	(41)	(41)	(30)
Issue of Common Shares	11	20	10
Issue of Partnership Interests (Note 3)	–	–	38
Other (Note 13)	(11)	(3)	(2)
	1,178	(123)	(215)
Investing Activities			
Capital Expenditures			
Exploration, Development and Other	(885)	(546)	(344)
Proved Property Acquisitions	(40)	(86)	(80)
Acquisitions (Note 3)	(1,680)	–	(50)
Proceeds on Disposition of Assets	491	40	57
Other (Note 13)	52	9	3
	(2,062)	(583)	(414)
Effect of Exchange Rate Changes on Cash	19	2	(3)
Increase (Decrease) in Cash	12	64	(21)
Cash – Beginning of Year	109	45	66
Cash – End of Year	$ 121	$ 109	$ 45

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

for the three years ended December 31, 1997

(millions)	Common Shares (Note 9)	Contributed Surplus	Retained Earnings	Cumulative Foreign Currency Translation Adjustment
December 31, 1994	$ 284	$ 14	$ 455	$ 72
Exercise of Stock Options	7	–	–	–
Issue of Common Shares	3	–	–	–
Net Income	–	–	141	–
Common Share Dividends	–	–	(30)	–
Translation Adjustment	–	–	–	(16)
December 31, 1995	294	14	566	56
Exercise of Stock Options	10	–	–	–
Issue of Common Shares	10	–	–	–
Net Income	–	–	190	–
Common Share Dividends	–	–	(41)	–
Translation Adjustment	–	–	–	24
December 31, 1996	314	14	715	80
Exercise of Stock Options	2	–	–	–
Issue of Common Shares	9	–	–	–
Net Income	–	–	139	–
Common Share Dividends	–	–	(41)	–
Translation Adjustment	–	–	–	18
December 31, 1997	**$ 325**	**$ 14**	**$ 813**	**$ 98**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(tabular amounts in millions except as otherwise noted)

1. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and subsidiary companies and partnerships in which it has a controlling interest ("CanadianOxy" or the "Company"). All subsidiary companies are wholly-owned. The consolidated chemical partnerships are 85 per cent owned as described in Note 3. All material intercompany accounts and transactions have been eliminated. Substantially all exploration, development and production activities related to oil and gas and alternate fuels are conducted jointly with others and, accordingly, the accounts reflect only CanadianOxy's proportionate interest in such activities.

Inventories and Supplies

Inventories and supplies are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out method or average basis.

Property, Plant and Equipment

CanadianOxy follows the successful efforts method of accounting for oil and gas exploration and development activities. Acquisition costs of resource properties, exploratory drilling costs and all development costs are capitalized. The cost of exploratory wells found to be dry and all other exploration costs are charged to operations.

The capitalized cost of resource properties and facilities, producing wells and the Syncrude plant are depleted or depreciated using the unit-of-production method over remaining proved reserves derived from estimates prepared or audited by independent engineers. The cost of other plant and equipment is capitalized and depreciated using the straight-line method based on the estimated useful lives of the assets which range principally from three to 25 years. Improvements that increase capacity or extend the useful lives of these assets are capitalized. Unproved properties are amortized at rates determined in accordance with experience. All property, plant and equipment is periodically evaluated and, if conditions warrant, an impairment provision is provided.

The unit-of-production method is used to provide for the estimated future dismantlement costs of the United States Gulf of Mexico and North Sea production platforms. Future dismantlement and site restoration costs for conventional onshore resource properties, facilities and pipelines, manufacturing facilities and the Syncrude Project are provided over either their associated proved reserves or their estimated remaining lives. Costs are based on engineering estimates of the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. The annual provision for dismantlement and site restoration is included in depreciation, depletion and amortization.

Carried Interest

Production generated from the Masila Block Development Project (the "Project") in Yemen is segregated by the terms of the Agreement for Petroleum Exploration and Production (the "Agreement") between the Government of Yemen (the "Government") and CanadianOxy and the other Masila Block participants. Production is divided into Cost Recovery Oil and Profit Oil. Cost Recovery Oil provides for the recovery of operating, exploration and development costs in accordance with a formula and is limited to a maximum of 40 per cent of production during each fiscal year. Costs not actually recovered in any year may be carried forward for recovery in future years, and are included in property, plant and equipment in the Consolidated Balance Sheet.

Profit Oil is that portion of production remaining after deducting Cost Recovery Oil. Profit Oil is deliverable to both the Government and the Masila Block participants on a sliding scale basis based on production rates. CanadianOxy's "Working Interest" in the Project is equivalent to the percentage of Profit Oil deliverable to it over the life of the Project and is accounted for using the successful efforts method of accounting.

Profit Oil which is attributable to the Government is considered to be the Government's "Deemed Interest". This includes an amount in respect of all Yemen income taxes payable by CanadianOxy and the other Masila Block participants under the laws of Yemen.

Under the terms of the Agreement, CanadianOxy and the other Masila Block participants fund the Government's share of exploration, development and operating costs. Cost Recovery Oil delivered to CanadianOxy includes a "Carried Interest" component from which CanadianOxy will recover the Government's share of exploration, development and operating costs incurred on the Government's behalf by CanadianOxy. Amounts received pertaining to the Government's Carried Interest are included as revenue and are offset by the actual recoveries representing firstly, the Government's share of the current year's operating costs and secondly, the Government's share of exploration and development costs. Recoveries of capitalized Carried Interest costs are shown as depreciation or depletion expense.

Production Overlifts and Underlifts
Crude oil and natural gas lifted and sold by CanadianOxy above or below its working interest share in resource properties results in production overlifts and underlifts. Revenues are recorded in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets. Settlement will be in kind when the liftings are equalized or in cash when production ceases.

Income Taxes
The deferral method of tax allocation accounting is followed under which the income tax provision is based on the results of operations reported in the accounts. The difference between the income tax provision and taxes currently payable is reflected as "deferred income taxes". Such deferred income taxes have arisen principally due to the differences in the timing of deductions taken for exploration, development and dismantlement and site restoration costs for income tax purposes and the related depreciation, depletion and amortization expense recorded in the financial statements.

Deferred foreign withholding taxes are not provided on the undistributed earnings of foreign incorporated subsidiaries as it is CanadianOxy's intention to invest such earnings indefinitely in foreign countries.

Petroleum Revenue Tax
The United Kingdom petroleum revenue tax ("PRT") is accounted for by the life of field method under which the total PRT payable in respect of each field is estimated and allocated to accounting periods pro rata to taxable profits. The difference between the PRT provision allocated to the current period and PRT currently payable is reflected as a deferred PRT charge or credit. The PRT provision is recorded as a reduction in sales.

Net Income per Common Share
Net income per common share is based on the weighted average number of common shares outstanding during each year and net income.

Foreign Currency Translation
The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are deferred and included in the cumulative foreign currency translation adjustment in shareholders' equity.

Transactions and monetary balances denominated in a currency other than a functional currency are translated into the functional currency using month-end exchange rates. Gains and losses arising from this translation process are included in income.

Foreign denominated long-term monetary liabilities of Canadian operations are translated using exchange rates at the balance sheet dates. The resulting unrealized translation gains and losses are deferred and amortized over the remaining lives of these long-term monetary liabilities. CanadianOxy has designated its United States dollar denominated net debt as a hedge against its net investment in United States dollar based self-sustaining foreign operations and, accordingly, gains and losses resulting from the translation of the net debt are deferred and included in the cumulative foreign currency translation adjustment in shareholders' equity. Deferred foreign exchange losses accumulated prior to designation were amortized over the remaining lives of the underlying liabilities.

Capitalized Interest

Interest is capitalized on qualifying assets until put into service, using either the interest rate on borrowings specifically associated with the asset or, if no such specific borrowings exist, the weighted average interest rate on all other borrowings.

Derivative Financial Instruments and Derivative Commodity Instruments

CanadianOxy utilizes derivative financial instruments and derivative commodity instruments (collectively "derivative instruments") in its management of exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as described in Note 7.

Foreign exchange contracts are used to effectively convert long-term debt obligations from Canadian to United States dollars. The initial premium or discount and subsequent changes are included in the carrying amount of the long-term debt obligation and the related gains and losses are included in the cumulative foreign currency translation adjustment in shareholders' equity. Foreign exchange contracts are also used to effectively fix the exchange rate on future United States dollar denominated sales. Gains and losses are recognized in revenues when the related transaction occurs.

Interest rate swap agreements and exchange contracts are used to effectively fix interest rates on floating rate long-term debt obligations. Net differences between amounts receivable and payable are reflected in interest expense on an accrual basis.

Futures contracts, swaps and options are used to manage the price risk associated with crude oil and natural gas sales and marketing activities. When there is a high degree of correlation between derivative instruments and designated transactions, gains and losses on derivative instruments are recognized in revenues when the designated transactions occur. If correlation ceases, and for other derivative instruments, changes in market value of the derivative instruments are recognized in revenues in the period of change.

Cash and Short-Term Investments

Cash and short-term investments include instruments with a maturity of three months or less when purchased.

2. AFFILIATES

Occidental Petroleum Corporation and its subsidiaries ("Occidental") own approximately 29 per cent of the common shares of CanadianOxy.

In the normal course of operations, CanadianOxy sells and purchases products and services to or from Occidental, all of which are at market prices. During 1997 and 1996, such transactions were not material and at December 31, 1997 and 1996, there were no material amounts owing to or due from Occidental.

In May 1995, CanadianOxy combined its industrial chemicals operations with Occidental's sodium chlorate operations as described in Note 3.

3. ACQUISITIONS

(a) Wascana Energy Inc. ("Wascana")

On April 14, 1997, CanadianOxy acquired 70.9 million common shares of Wascana at a price of $20.50 per share pursuant to a take-over bid. Together with 3.3 million shares previously acquired on the open market, CanadianOxy held 88.5 per cent of the issued and outstanding common shares of Wascana. The remaining shares were acquired on June 27, 1997 at a price of $20.50 per share. The aggregate amount required to purchase all the common shares and to pay the related fees and expenses was approximately $1.7 billion. The acquisition was financed by long-term credit facilities.

The acquisition was recorded using the purchase method of accounting whereby the results of operations are included from April 15, 1997, and the assets acquired and liabilities assumed were recorded at their fair values. The allocation of the purchase price is as follows:

Current Assets (including cash of $42 million)	$ 256
Property, Plant and Equipment	2,091
Other Assets	10
Current Liabilities	(192)
Long-Term Debt	(393)
Dismantlement and Site Restoration Allowance	(20)
Other Deferred Credits and Liabilities	(30)
	$ 1,722

The following unaudited pro forma financial information combines the consolidated results of operations of CanadianOxy and Wascana as if the acquisition had occurred on January 1, 1997 and 1996, after giving effect to certain adjustments including increased depreciation, depletion and amortization to reflect the value assigned to Wascana's property, plant and equipment, increased interest expense relating to debt issued to fund the acquisition, and income tax effects. This pro forma financial information does not necessarily reflect the results of operations as they would have been if CanadianOxy had controlled Wascana during such periods and is not necessarily indicative of results which may be obtained in the future.

	1997	1996
Revenues	$ 1,882	$ 1,808
Net Income in Accordance with Canadian Principles	$ 104	$ 87
Net Income per Common Share in Accordance with Canadian Principles	$ 0.76	$ 0.64
Net Income in Accordance with United States Principles		
Before Extraordinary Item	$ 101	$ 69
After Extraordinary Item	$ 101	$ 73
Net Income per Common Share in Accordance with United States Principles		
Before Extraordinary Item	$ 0.74	$ 0.51
After Extraordinary Item	$ 0.74	$ 0.54

(b) Chemicals Operations

Effective May 1, 1995, CanadianOxy combined its industrial chemicals operations with Occidental's sodium chlorate facility located in Louisiana. CanadianOxy has an 85 per cent interest in the partnerships and is the managing partner. The combination was accounted for as a non-monetary transaction whereby the value assigned to the net assets contributed by Occidental was based on the carrying value of the net assets contributed by CanadianOxy as follows:

Value Assigned to Property, Plant and Equipment	$ 34
Occidental's Cash Contribution for Working Capital	4
Minority Interest in Partnerships	$ 38

Effective December 31, 1995, CanadianOxy acquired a sodium chlorate facility in Quebec for cash consideration of $16 million.

The results of operations have been consolidated since the effective dates.

4. ACCOUNTS RECEIVABLE

	1997	1996
Trade	$ 443	$ 235
Non-Trade	20	8
	463	243
Allowance for Doubtful Accounts	(1)	(1)
	$ 462	$ 242

5. INVENTORIES AND SUPPLIES

	1997	1996
Finished Products	$ 15	$ 12
Work in Process	4	4
Field Supplies	60	46
	$ 79	$ 62

6. PROPERTY, PLANT AND EQUIPMENT

	1997			1996		
	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value
Oil and Gas						
Yemen	$ 460	$ 297	$ 163	$ 425	$ 202	$ 223
Yemen Carried Interest Costs	762	606	156	698	490	208
Canada	2,478	412	2,066	664	325	339
United States	833	426	407	716	363	353
North Sea	394	159	235	366	124	242
Other Countries	143	22	121	96	34	62
Marketing	123	8	115	–	–	–
	5,193	1,930	3,263	2,965	1,538	1,427
Alternate Fuels	325	106	219	303	97	206
Chemicals	491	186	305	473	162	311
Corporate and Other	43	16	27	23	12	11
	$ 6,052	$ 2,238	$ 3,814	$ 3,764	$ 1,809	$ 1,955

Capitalized costs relating to unproved properties and projects which are under construction or development are not depreciated, depleted or amortized. Included in the above table are oil and gas assets amounting to $330 million (1996 – $58 million) which are not being depreciated, depleted or amortized.

Portions of CanadianOxy's oil and gas assets are located outside North America. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is CanadianOxy's policy to conduct its business so as to minimize such risks.

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The nature of CanadianOxy's operations and the issuance of long-term debt expose the Company to fluctuations in foreign currency exchange rates, interest rates and commodity prices. CanadianOxy manages these risks by operating in a manner intended to minimize its exposure to the extent practical, and through the periodic use of derivative instruments. The Finance Committee of the Board of Directors reviews the results of derivative activities and all outstanding positions at each meeting.

CanadianOxy does not have any concentrations of credit risk nor does it hold any financial instruments with significant off-balance sheet risk of accounting loss except as described below.

(a) Foreign currency rate risk management

A portion of CanadianOxy's operations are located outside Canada. The functional currencies of these operations and related net assets are the United States dollar and, to a lesser extent, United Kingdom pounds sterling. CanadianOxy does not have any material exposure to highly inflationary foreign currencies. In addition, CanadianOxy is exposed to foreign currency fluctuations in its Canadian based operations as crude oil and a portion of natural gas prices received are referenced to United States dollar denominated prices.

CanadianOxy manages its exposure to foreign currency fluctuations by operating in a manner which generally matches foreign denominated future cash requirements with similarly denominated cash sources. Net revenues from foreign denominated operations together with available borrowing facilities are used to fund similarly denominated capital expenditures and long-term debt repayments. In addition, derivative financial instruments are periodically used to effectively convert future cash flows from Canadian to United States dollars or vice versa. These activities provide an effective hedge thereby minimizing the Company's exposure to foreign currency fluctuations.

At December 31, 1997 and 1996, CanadianOxy held the following foreign denominated net investments and long-term debt:

	1997	1996
United States Dollar Denominated		
Net Investments in Foreign Operations	U.S. $636	U.S. $662
Long-Term Debt	U.S. $617	U.S. $110
United Kingdom Pounds Sterling Denominated		
Net Investments in Foreign Operations	£ 75	£ 81

At December 31, 1997, CanadianOxy held the following foreign currency related derivative financial instruments:

Foreign Exchange Contracts Related to Long-Term Debt

	Amount Receivable	Amount Payable	Maturity Date
Forward Exchange Contracts	Cdn. $50	U.S. $36	May 1998
Exchange Contract	Cdn. $50	U.S. $37	November 2006

These contracts represent obligations to exchange principal and interest amounts between CanadianOxy and the counterparties. Details regarding these contracts are described in Note 8 together with the obligations to which they relate.

Foreign Exchange Contracts Related to Future Sales

	Maturity Date		
	1998	1999	2000
Contract Amount to Sell	U.S. $148	U.S. $94	U.S. $88
Weighted Average Contractual Exchange Rate (U.S.$/Cdn.$)	$0.7198	$0.7158	$0.7108

These contracts represent obligations to exchange United States dollars for Canadian dollars at fixed exchange rates.

(b) Interest rate risk management

CanadianOxy manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings, and the periodic use of derivative financial instruments.

At December 31, 1997, CanadianOxy had fixed the interest rates on 36 per cent (1996 – 88 per cent) of its long-term debt at an effective rate of 6.9 per cent (1996 – 7.8 per cent) through fixed rate borrowings and the following derivative financial instruments:

	Principal Amount	Effective Rate	Maturity Date
Forward Exchange Contracts	U.S.$ 36	5.60%	May 1998
Exchange Contract	U.S.$ 37	6.75%	November 2006
Interest Rate Swap Agreements	U.S.$100	6.75%	November 2007
Interest Rate Swap Agreement	Cdn.$ 50	6.16%	November 2007

The exchange contracts represent obligations to exchange principal and interest amounts between CanadianOxy and the counterparties. The interest rate swap agreements provide for the receipt or payment of the difference between floating and fixed rates of interest based on a notional principal amount. Details regarding these contracts are described in Note 8 together with the obligations to which they relate.

(c) Commodity price risk management

CanadianOxy generally sells its crude oil and natural gas under short-term market based contracts, except for North Sea natural gas which is sold under long-term contracts covering the life of the field with prices redetermined periodically in accordance with a formula based on reference indices. Occasionally, derivative financial instruments may be used to manage the price risk associated with crude oil and natural gas sales. During 1997, CanadianOxy utilized various derivative financial instruments to effectively fix the prices and differentials on crude oil and natural gas sales, however, these did not have a significant impact on the results of operations. At December 31, 1997, CanadianOxy did not hold any significant derivative financial instruments. During 1996, no significant derivative financial instruments were utilized by CanadianOxy.

CanadianOxy is involved in various crude oil and natural gas marketing activities intended to enhance its oil and gas operations through greater customer satisfaction and market diversification, economies of scale and improved transportation access. The Company enters into contracts to purchase and sell crude oil and natural gas in order to gain control over larger quantities than is available from its proprietary production. This activity exposes the Company to commodity price risk between the time contracted volumes are purchased and sold. This risk is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, swaps and options traded on the NYMEX. Occasionally, open positions may exist where not all contracted purchases and sales have been matched in order to take advantage of market differences. The extent of exposure under these activities is restricted to prescribed limits and is monitored by a daily value-at-risk calculation. During 1997, net revenue from these activities, including the related derivative instruments, was $9 million and at December 31, 1997, the value-at-risk was $7 million.

Prior to the Wascana acquisition, CanadianOxy was involved in the marketing of third party crude oil through a 50 per cent interest in a partnership arrangement. The Company's share of net revenue from such marketing activities was not significant.

(d) Fair value of financial instruments, including derivative instruments
The fair value of recognized financial instruments at December 31, 1997 and 1996 approximates their carrying value. The fair value of unrecognized derivative instruments at December 31, 1997 was $(7) million (1996 – $nil). The carrying value of cash and short-term investments, amounts receivable and short-term obligations approximates their fair value because of the near-term maturity of those instruments. The estimated fair value of long-term debt and derivative instruments is based on public trading values where available, or where not available, on values for similarly traded instruments with similar features.

8. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

	1997	1996
Unsecured Syndicated Term Credit Facilities (a)	$ 1,436	$ –
Unsecured Syndicated Term Loans (b)	80	–
Unsecured Five-Year Debentures, due 1997 (c)	–	121
Unsecured Five-Year Senior Notes, due 1997 (d)	–	82
Unsecured Five-Year Debentures, due 1998 (e)	101	100
Unsecured Retractable Debentures, due 1999 (f)	26	26
Unsecured Ten-Year Debentures, due 2001 (g)	75	75
Unsecured Five-Year Term Loan, due 2001 (h)	71	68
Unsecured Ten-Year Redeemable Debentures, due 2006 (i)	103	100
Unsecured Redeemable Medium Term Notes, due 2007 (j)	150	–
Unsecured Redeemable Medium Term Notes, due 2008 (j)	125	–
	$ 2,167	$ 572

(a) Unsecured syndicated term credit facilities
During April 1997, CanadianOxy and a Canadian chartered bank, as agent, entered into an agreement which provides for the following unsecured term credit facilities:

(i) a revolving facility in the amount of $1.2 billion available until July 31, 2003 with interest payable at a floating rate. The availability date of the revolving facility is extendible for two-year periods at the lenders' option commencing in July 1998. At December 31, 1997, $489 million and U.S. $495 million were outstanding under this facility. The weighted average interest rate was 5.0 per cent during 1997. In November 1997, the Company entered into interest rate swap agreements wherein the effective rate of interest on $50 million and U.S. $100 million was fixed at 6.2 and 6.8 per cent, respectively, until November 2007.

(ii) a bridge facility in the original amount of $600 million maturing December 31, 1999 with interest payable at a floating rate. At December 31, 1997, the amount available and outstanding under this facility was $240 million following the application of proceeds of $360 million on disposition of certain assets. The weighted average interest rate was 3.9 per cent during 1997.

(b) Unsecured syndicated term loans

During 1997, CanadianOxy maintained the following unsecured revolving term loan facilities:

(i) $500 million with a bank syndicate which matures July 31, 2003 with interest payable at a floating rate. At December 31, 1997 and 1996, $80 million and $nil, respectively, were outstanding under this facility. The weighted average interest rate was 4.8 and 5.9 per cent during 1997 and 1996, respectively.

(ii) $100 million with a Canadian chartered bank which matures May 31, 2004 with interest payable at a floating rate. At December 31, 1997 and 1996, no amounts were outstanding under this facility. The weighted average interest rate was 3.8 and 5.9 per cent during 1997 and 1996, respectively.

(iii) $75 million with a Canadian chartered bank which matures January 31, 2004 with interest payable at a floating rate. This facility was assumed on the acquisition of Wascana. At December 31, 1997, no amount was outstanding under this facility. The interest rate averaged 3.3 per cent during 1997.

(c) Unsecured five-year debentures, due 1997

During 1992, CanadianOxy issued $115 million of unsecured five-year debentures with interest payable semi-annually at a rate of 8.4 per cent. Concurrently, $50 million of this obligation was effectively converted through forward exchange contracts with a Canadian chartered bank to a U.S. $41 million liability bearing interest at an effective rate of 6.9 per cent. The debentures and forward exchange contracts were settled on maturity in January 1997.

(d) Unsecured five-year senior notes, due 1997

During 1992, CanadianOxy completed a U.S. $60 million private placement of unsecured five-year senior notes with interest payable semi-annually at a rate of 8.2 per cent. The notes were repaid on maturity in April 1997.

(e) Unsecured five-year debentures, due 1998

During 1993, CanadianOxy issued $100 million of unsecured five-year debentures. Interest is payable semi-annually at a rate of 7.7 per cent and the principal is to be repaid in May 1998. Subsequently, $50 million of this obligation was effectively converted through forward exchange contracts with a Canadian chartered bank to a U.S. $36 million liability bearing interest at an effective rate of 5.6 per cent. CanadianOxy intends to refinance the obligation with existing available long-term debt facilities and, accordingly, it has not been included in current liabilities at December 31, 1997.

(f) Unsecured retractable debentures, due 1999

At December 31, 1997 and 1996, unsecured retractable debentures in the amount of $26 million were outstanding (net of $28 million face value of debentures repurchased). Interest is payable at a rate of 6.6 per cent and the principal is to be repaid in March 1999.

(g) Unsecured ten-year debentures, due 2001

During 1991, CanadianOxy issued $75 million of unsecured ten-year debentures. Interest is payable semi-annually at a rate of 10.9 per cent and the principal is to be repaid in June 2001. In July 1991, $35 million of this obligation was effectively converted through forward exchange contracts with a Canadian chartered bank to a U.S. $28 million liability bearing interest at an effective rate of 8.9 per cent. The forward exchange contracts were settled on maturity in June 1996.

(h) Unsecured five-year term loan, due 2001

During 1996, CanadianOxy entered into a five-year U.S. $50 million unsecured term loan agreement with a Canadian chartered bank. Interest is payable at a floating rate and the principal is to be repaid in October 2001.

(i) Unsecured ten-year redeemable debentures, due 2006

During 1996, CanadianOxy issued $100 million of unsecured ten-year redeemable debentures. Interest is payable semi-annually at a rate of 6.9 per cent and the principal is to be repaid in November 2006. In December 1996, $50 million of this obligation was effectively converted through an interest rate and currency exchange contract with a Canadian chartered bank to a U.S. $37 million liability bearing interest at an effective rate of 6.8 per cent for the term of the debentures. The debentures are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the debentures plus 0.10 per cent.

(j) Unsecured redeemable medium term notes

During June 1997, CanadianOxy filed a shelf prospectus with Canadian securities regulatory authorities to issue from time to time to June 1999 up to $600 million principal amount of unsecured redeemable medium term notes. The issue price, interest rate, maturity date and redemption price are determined at the time of issuance.

During July 1997, CanadianOxy issued $150 million principal amount of notes. Interest is payable semi-annually at a rate of 6.5 per cent and the principal is to be repaid in July 2007. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the notes plus 0.125 per cent.

During October 1997, CanadianOxy issued $125 million principal amount of notes. Interest is payable semi-annually at a rate of 6.3 per cent and the principal is to be repaid in June 2008. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the notes plus 0.125 per cent.

(k) Unsecured redeemable debt securities

During February 1998, CanadianOxy filed a shelf prospectus with Canadian and United States securities regulatory authorities to issue from time to time to February 2000 up to U.S. $500 million principal amount of unsecured redeemable debt securities. The issue price, interest rate, maturity date and redemption price are determined at the time of issuance.

(l) Repayment and interest

Required long-term debt repayments, before considering the intended refinancings in 1998, for the next five years are: 1998 – $101 million; 1999 – $266 million; 2000 – $nil; 2001 – $146 million; and 2002 – $nil. Interest expense on long-term debt was $103 million, $46 million and $54 million in 1997, 1996 and 1995, respectively.

(m) Debt covenants

The majority of debt instruments contain covenants pertaining to the Company's net worth, certain ratios and the ability to grant security. At December 31, 1997, all covenants have been met.

(n) Short-term borrowings

CanadianOxy has unsecured operating loan facilities of approximately $280 million and a commercial paper program of $500 million which is supported by unused lines of credit. interest is payable at floating rates and the facilities are subject to periodic reviews. During 1997 and 1996, the weighted average interest rate on short-term borrowings was 3.6 and 4.9 per cent, respectively.

9. CAPITAL

(a) Authorized capital

Authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of Class A preferred shares of no par value issuable in series.

(b) Issued common shares and dividends

	1997	1996	1995
(thousands of shares)			
Beginning of Year	136,155	135,020	134,309
Exercise of Stock Options	112	655	543
Issue of Common Shares for Cash	343	480	168
End of Year	136,610	136,155	135,020
Dividends per Common Share	$ 0.30	$ 0.30	$ 0.225

During 1997, CanadianOxy issued 342,874 (1996 – 480,180; 1995 – 85,800) common shares for cash consideration of $9.1 million (1996 – $10.3 million; 1995 – $1.7 million) under a Dividend Reinvestment Plan. At December 31, 1997, there were 91,146 common shares reserved for issuance under this plan.

During 1995, CanadianOxy issued 82,200 common shares for cash consideration of $1.6 million pursuant to an employee flow-through share arrangement.

(c) Stock options

The following options to purchase common shares have been granted to directors, officers and employees. Under the stock option plan, options vest over four years and are exercisable on a cumulative basis over 10 years. At the time of grant, the exercise price is equal to the market price.

(thousands except per share amounts)	Options	Weighted-Average Exercise Price Per Share
December 31, 1994	1,516	$ 13
Granted	524	$ 18
Exercised	(543)	$ 12
Forfeited	(55)	$ 13
December 31, 1995	1,442	$ 15
Granted	416	$ 23
Exercised	(655)	$ 14
Forfeited	(53)	$ 17
December 31, 1996	1,150	$ 18
Granted	1,135	$ 26
Exercised	(112)	$ 16
Forfeited	(58)	$ 24
December 31, 1997	2,115	$ 22
Options exercisable at end of year		
1995	698	$ 14
1996	511	$ 17
1997	847	$ 20

The outstanding options were granted at prices ranging from $10 to $38 per common share and have a weighted average remaining contractual life of 8 years. At December 31, 1997, there were 1,355,920 common shares reserved for the granting of additional options.

10. CONTINGENCIES

There are a number of lawsuits and claims pending including income tax reassessments as described in Note 12, the ultimate results of which cannot be ascertained at this time. Costs are recorded as they are incurred or become determinable. Management is of the opinion that any amounts assessed against the Company would not have a material adverse effect upon its consolidated financial position or results of operations.

11. EMPLOYEE PENSION PLANS

CanadianOxy maintains contributory and non-contributory defined benefit pension plans and defined contribution pension plans which together cover substantially all employees. The pension costs for the defined benefit plans are determined by independent actuarial valuations and are funded in accordance with federal and provincial government regulations by contributions to trust funds which are administered by an independent trustee. Assets of the defined benefit pension funds are invested in investment funds, consisting primarily of equities and fixed income bonds.

Net pension expense for the defined benefit pension plans has been determined as follows:

	1997	1996	1995
Cost of Benefits Earned by Employees During the Year	$ 4	$ 3	$ 3
Current Year's Interest Cost on Benefits Earned	6	6	6
Actual Return on Pension Plan Assets	(10)	(7)	(6)
Net Amortization and Deferral	5	3	2
Net Pension Expense	$ 5	$ 5	$ 5

The following table sets forth the funded status of the defined benefit pension plans, the amounts recognized in the Consolidated Balance Sheet at December 31, 1997 and 1996, and the assumptions used in the determination of the projected benefit obligation and net pension expense.

	1997	1996
Actuarial Present Value of Benefit Obligations		
Benefits Based on Service to Date and Present Pay Levels		
Vested	$ 84	$ 79
Non-vested	–	1
Accumulated Benefit Obligation	84	80
Additional Benefits Related Principally to Projected Pay Increases	12	12
Total Projected Benefit Obligation Based on Service to Date	96	92
Pension Plan Assets at Fair Value	96	86
Projected Benefit Obligation in Excess of Pension Plan Assets	–	(6)
Unamortized Gain at Transition	–	(1)
Unamortized Past Service Costs	7	8
Unamortized Past Net Experience Gains	(4)	–
Pension Asset Recognized in the Consolidated Balance Sheet	$ 3	$ 1
Discount Rate	7.0%	7.0%
Long-Term Rate of Employee Compensation Increase	4.5%	4.5%
Long-Term Annual Rate of Return on Plan Assets	7.0%	7.0%

At December 31, 1997, pension plan assets were in excess of accumulated benefit obligations to date in each plan.

The Company has non-contributory executive benefit plans which provide supplemental benefits to the extent that the benefits under the pension plans are limited by statutory guidelines. The plans provide benefits based on length of service and final average earnings.

12. INCOME TAXES

Income before income taxes generated from Canadian and foreign operations is as follows:

	1997	1996	1995
Income Before Income Taxes			
Canadian	$ (56)	$ 28	$ 45
Foreign	334	291	195
	$ 278	$ 319	$ 240

The Canadian and foreign components of the provision for income taxes based on the jurisdiction in which income is taxed are as follows:

	1997	1996	1995
Current			
Canadian	$ (1)	$ 2	$ 3
Foreign	123	117	75
	122	119	78
Deferred			
Canadian	(4)	1	(6)
Foreign	21	9	27
	17	10	21
Total			
Canadian	(5)	3	(3)
Foreign	144	126	102
Provision for Income Taxes	$ 139	$ 129	$ 99

Foreign is principally comprised of Yemen, the United States and the United Kingdom.

The provision for income taxes in the Consolidated Statement of Income varies from the provision for income taxes calculated at the Canadian statutory tax rate. The following table reconciles the main differences:

	1997	1996	1995
Income Before Income Taxes	$ 278	$ 319	$ 240
Provision for Income Taxes Computed at the Canadian Statutory Rate	$ 124	$ 142	$ 107
Add (Deduct) the Tax Effect of:			
Royalties, Rentals and Similar Payments to Provincial Governments	41	14	11
Resource Allowance and Provincial Tax Rebates	(39)	(16)	(10)
Lower Tax Rates on Foreign Operations	(22)	(18)	(10)
Permanent Differences Between Accounting and Tax Bases of Assets and Liabilities	25	1	(8)
Large Corporation Tax	7	2	2
Capital Losses Carried Forward	–	1	9
Other	3	3	(2)
Provision for Income Taxes	$ 139	$ 129	$ 99

The provision for deferred income taxes arises from timing differences in the recognition of revenue and expense items for income tax and financial statement purposes. The income tax effects of these differences are as follows:

	1997	1996	1995
Depreciable Property, Plant and Equipment	$ (8)	$ 8	$ (10)
Dismantlement and Site Restoration Expenditures	(7)	(4)	(2)
Deferred Income	37	(2)	12
Capitalized Interest	(5)	(5)	(6)
Utilization of Prior Years' Operating Losses	(8)	10	30
Foreign Taxes	8	4	–
Other	–	(1)	(3)
Provision for Deferred Income Taxes	$ 17	$ 10	$ 21

CanadianOxy's income tax filings are subject to audit by taxation authorities. There are various audits in progress and items under review, some of which may increase the tax liability of the Company. The ultimate results of these items cannot be ascertained at this time. Management is of the opinion that it has adequately provided for income taxes based on all information currently available.

At the time of acquisition, Wascana had outstanding taxation issues in dispute relating to prior taxation years. Wascana disagreed with issues raised and has filed Notices of Objection in respect of these issues. The value of the tax pools acquired at the time of acquisition reflects management's evaluation of the potential impact of these issues.

13. CASH FLOWS

(a) Charges and credits to income not involving cash

	1997	1996	1995
Depreciation, Depletion and Amortization	$ 589	$ 452	$ 439
Deferred Income Taxes	17	10	21
Amortization of Deferred Foreign Exchange Losses	–	15	20
Minority Interest in Net Income	6	6	4
Amortization of Deferred Credits	(27)	–	–
Gain on Disposition of Assets	(12)	(18)	(23)
Amortization of Gain on Termination of Interest Rate Swap Agreements	–	(8)	(16)
Other	5	–	(5)
	$ 578	$ 457	$ 440

(b) Changes in non-cash working capital

Changes in non-cash working capital items increased (decreased) cash as follows:

	1997	1996	1995
Accounts Receivable	$ (13)	$ (37)	$ (78)
Income Taxes Receivable	2	12	2
Inventories and Supplies	5	(9)	(5)
Prepaid Expenses	(3)	2	(5)
Accounts Payable and Accrued Liabilities	77	33	80
Income Taxes Payable	9	7	–
Accrued Interest Payable	1	1	(1)
Dividends Payable	–	2	1
Current Portion of Long-Term Debt	–	–	(1)
	78	11	(7)
Effect of Foreign Exchange Rate Changes on Non-Cash Working Capital	(1)	2	(1)
	$ 77	$ 13	$ (8)

These changes relate to the following activities:

	1997	1996	1995
Operating Activities	$ 23	$ 6	$ (23)
Investing Activities	54	6	14
Financing Activities	–	1	1
	$ 77	$ 13	$ (8)

Amounts relating to Investing and Financing activities are included in the respective "other" classifications in the Consolidated Statement of Cash Flows.

(c) Other cash flow information

	1997	1996	1995
Interest Paid	$ 112	$ 55	$ 69
Income Taxes Paid, Net	$ 112	$ 100	$ 72

14. OPERATING SEGMENTS AND RELATED INFORMATION

CanadianOxy is involved in activities relating to oil and gas, alternate fuels and chemicals in various geographic locations.

The oil and gas activities involve exploration for and the development and production of crude oil, natural gas and related products around the world. Operations are generally managed on a country-by-country basis reflecting differences in the regulatory environments and risk factors associated with a country. Principal operations are located onshore in Yemen and Canada, and in the offshore waters of the United States Gulf of Mexico and the United Kingdom sector of the North Sea. Other operations are located primarily in Ecuador, Nigeria, Australia, Indonesia and Colombia. Oil and gas activities also include the transportation and marketing of proprietary and third party purchased crude oil and natural gas.

The alternate fuels activities involve the development and production of synthetic crude oil from oil sands in northern Alberta in Canada.

The chemicals operations involve the manufacture, marketing and distribution of industrial chemicals, principally sodium chlorate, chlorine and caustic soda. Sodium chlorate is produced at five facilities located in Canada and one facility in the United States. Chlorine and caustic soda are produced at a chlor-alkali facility in Canada.

The accounting policies of the operating segments are the same as those described in Note 1. Net income of operating segments excludes interest income, interest expense, unallocated corporate expenses, foreign exchange gains and losses, and amortization of the gain on termination of interest rate swap agreements. Identifiable assets are those used in the operations of the segments.

Notes to the following tables:

[a] Includes the impact of the Wascana acquisition commencing April 15, 1997.

[b] Includes results of operations from producing activities in Ecuador, and Venezuela prior to its disposition in December 1997.

[c] Includes results of operations from sales of asphalt and related by-products in Canada.

[d] Comprised of sales in Canada of $108 million and in the United States of $152 million (1996 – Canada $116 million and United States $139 million; 1995 – Canada $159 million and United States $74 million). In addition, the Canadian operations sell finished products to the United States operations at market prices less an amount for selling costs.

[e] Sales and cost of sales associated with the purchase and sale of crude oil and natural gas are recorded on a net basis and included in marketing, interest and other income in the Consolidated Statement of Income. Sales and cost of sales were $2,196 million and $2,179 million, respectively. Approximately 21 and 6 per cent of cost of sales relate to purchase of products from the Canadian and Alternate Fuels operating segments, respectively.

[f] Includes exploration activities primarily in Indonesia, Australia, Colombia and Vietnam.

[g] The provision for (recovery of) income taxes for foreign geographic operating locations is based on in-country taxes on foreign income. For oil and gas locations with no operating activities, the provision is based on the tax jurisdiction of the entity undertaking the activity.

[h] Includes results of operations from producing activities in Ecuador, and Peru prior to expiration of the contract in July 1996.

[i] Includes exploration activities primarily in Nigeria, Indonesia and Colombia.

[j] Includes exploration activities primarily in Indonesia and Vietnam.

[k] Sales made in Canada from all segments were $627 million (1996 – $342 million; 1995 – $343 million) and property, plant and equipment located in Canada was $2,648 million at December 31, 1997 (1996 – $787 million; 1995 – $717 million).

1997 Operating and Geographic Segments

	Oil and Gas						Alternate Fuels	Chemicals	Corporate and Other Items[c]	Total
	Yemen	Canada[a]	United States	North Sea	Other Countries[b]	Marketing				
Net Sales	$ 497	$ 449	$ 212	$ 69	$ 24	$ –	$ 140	$ 260[d]	$ 30	$ 1,681
Gain on Disposition of Assets	–	11	1	–	–	–	–	–	–	12
Marketing, Interest and Other Income	–	12	14	5	3	17[e]	–	3	18	72
Total Revenues	497	472	227	74	27	17	140	263	48	1,765
Cost of Sales	41	154	42	15	10	–	75	160	18	515
Selling, Administrative and Other	1	34	8	3	17	5	3	21	29	121
Depreciation, Depletion and Amortization	176	221	91	33	15	8	13	26	6	589
Exploration	–	46	26	2	74[f]	–	–	–	–	148
Interest, Net	–	–	–	–	–	–	–	–	114	114
Income Before Income Taxes	279	17	60	21	(89)	4	49	56	(119)	278
Provision for (Recovery of) Income Taxes[g]	110	41	21	9	(30)	1	16	23	(52)	139
Net Income (Loss)	$ 169	$ (24)	$ 39	$ 12	$ (59)	$ 3	$ 33	$ 33	$ (67)	$ 139
Identifiable Assets	$ 413	$ 2,146	$ 472	$ 250	$ 198	$ 358	$ 234	$ 375	$ 101	$ 4,547
Additions to Property, Plant and Equipment										
Development and Other Expenditures	$ 49	$ 327	$ 109	$ 19	$ 68	$ 3	$ 26	$ 18	$ 9	$ 628
Exploration Expenditures	–	101	45	11	100	–	–	–	–	257
Proved Property Acquisitions	–	28	12	–	–	–	–	–	–	40
Exploration Expense	–	(46)	(26)	(2)	(74)	–	–	–	–	(148)
Capital Additions	$ 49	$ 410	$ 140	$ 28	$ 94	$ 3	$ 26	$ 18	$ 9	$ 777
Property, Plant and Equipment										
Cost	$ 1,222	$ 2,478	$ 833	$ 394	$ 143	$ 123	$ 325	$ 491	$ 43	$ 6,052
Accumulated Depreciation, Depletion and Amortization	903	412	426	159	22	8	106	186	16	2,238
Net Book Value	$ 319	$ 2,066	$ 407	$ 235	$ 121	$ 115	$ 219	$ 305	$ 27	$ 3,814

1996 Operating and Geographic Segments

	Oil and Gas					Alternate Fuels	Chemicals	Corporate and Other Items	Total
	Yemen	Canada	United States	North Sea	Other Countries[h]				
Net Sales	$ 522	$ 163	$ 214	$ 60	$ 21	$ 127	$ 255[d]	$ –	$ 1,362
Gain on Disposition of Assets	–	11	6	–	1	–	–	–	18
Interest and Other Income	–	9	2	2	–	–	2	3	18
Total Revenues	522	183	222	62	22	127	257	3	1,398
Cost of Sales	38	55	37	13	10	73	153	–	379
Selling, Administrative and Other	4	11	9	1	9	3	14	23	74
Depreciation, Depletion and Amortization	212	64	93	28	15	12	24	4	452
Exploration	–	24	27	25	43[i]	–	–	–	119
Interest, Net	–	–	–	–	–	–	–	55	55
Income Before Income Taxes	268	29	56	(5)	(55)	39	66	(79)	319
Provision for (Recovery of) Income Taxes[g]	107	18	20	–	(17)	12	27	(38)	129
Net Income (Loss)	$ 161	$ 11	$ 36	$ (5)	$ (38)	$ 27	$ 39	$ (41)	$ 190
Identifiable Assets	$ 537	$ 421	$ 451	$ 256	$ 110	$ 221	$ 377	$ 31	$ 2,404
Additions to Property, Plant and Equipment									
Development and Other Expenditures	$ 156	$ 78	$ 60	$ 9	$ 21	$ 15	$ 36	$ 4	$ 379
Exploration Expenditures	–	55	35	25	51	1	–	–	167
Proved Property Acquisitions	–	20	66	–	–	–	–	–	86
Exploration Expense	–	(24)	(27)	(25)	(43)	–	–	–	(119)
Capital Additions	$ 156	$ 129	$ 134	$ 9	$ 29	$ 16	$ 36	$ 4	$ 513
Property, Plant and Equipment									
Cost	$ 1,123	$ 664	$ 716	$ 366	$ 96	$ 303	$ 473	$ 23	$ 3,764
Accumulated Depreciation, Depletion and Amortization	692	325	363	124	34	97	162	12	1,809
Net Book Value	$ 431	$ 339	$ 353	$ 242	$ 62	$ 206	$ 311	$ 11	$ 1,955

1995 Operating and Geographic Segments

	Oil and Gas					Alternate Fuels	Chemicals	Corporate and Other Items	Total
	Yemen	Canada	United States	North Sea	Other Countries[h]				
Net Sales	$ 499	$ 128	$ 127	$ 59	$ 23	$ 111	$ 233[d]	$ –	$ 1,180
Gain on Disposition of Assets	–	14	–	–	1	8	–	–	23
Interest and Other Income	–	6	16	–	–	–	1	2	25
Total Revenues	499	148	143	59	24	119	234	2	1,228
Cost of Sales	37	52	30	12	11	74	147	–	363
Selling, Administrative and Other	5	10	7	1	13	2	13	24	75
Depreciation, Depletion and Amortization	248	66	53	29	5	8	26	4	439
Exploration	3	6	10	8	22[j]	–	–	–	49
Interest, Net	–	–	–	–	–	–	–	62	62
Income Before Income Taxes	206	14	43	9	(27)	35	48	(88)	240
Provision for (Recovery of) Income Taxes[g]	79	12	16	4	(11)	10	19	(30)	99
Net Income (Loss)	$ 127	$ 2	$ 27	$ 5	$ (16)	$ 25	$ 29	$ (58)	$ 141
Identifiable Assets	$ 594	$ 294	$ 385	$ 254	$ 65	$ 211	$ 364	$ 84	$ 2,251
Additions to Property, Plant and Equipment									
Development and Other Expenditures	$ 51	$ 53	$ 46	$ 16	$ 12	$ 11	$ 52	$ 3	$ 244
Exploration Expenditures	16	26	23	8	23	4	–	–	100
Proved Property Acquisitions	–	19	61	–	–	–	–	–	80
Exploration Expense	(3)	(6)	(10)	(8)	(22)	–	–	–	(49)
Capital Additions	$ 64	$ 92	$ 120	$ 16	$ 13	$ 15	$ 52	$ 3	$ 375
Property, Plant and Equipment									
Cost	$ 965	$ 575	$ 777	$ 323	$ 224	$ 290	$ 471	$ 18	$ 3,643
Accumulated Depreciation, Depletion and Amortization	473	297	465	87	175	88	168	8	1,761
Net Book Value	$ 492	$ 278	$ 312	$ 236	$ 49	$ 202	$ 303	$ 10	$ 1,882

15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant differences from United States principles are as follows:

(a) In accordance with U.S. principles, exchange gains and losses arising on translation of long-term monetary liabilities, unless designated as a hedge, are included in income currently instead of deferred and amortized over the lives of such long-term liabilities.

(b) In accordance with U.S. principles, deferred income taxes are recognized, at enacted rates, to reflect the future effects of tax carry forwards and temporary differences between the tax bases of assets and liabilities and their financial reporting amounts. In addition, assets and liabilities related to purchased businesses are restated to eliminate the use of net of tax accounting for such assets and liabilities, resulting in higher carrying values for assets, liabilities and deferred income taxes.

(c) In accordance with U.S. principles, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable based on expected future cash flows. When an impairment has occurred, a loss is recognized using a fair value based model. Application of this method of assessing impairment of long-lived assets has not resulted in the recognition of any impairment losses on long-lived assets.

(d) CanadianOxy has adopted the recently issued U.S. principle regarding the calculation and presentation of basic earnings per share. The new methodology did not change previously reported net income per common share.

The impact of these differences on the consolidated financial statements is as follows:

Consolidated Statement of Income

	1997	1996	1995
Net Income as Reported in Accordance with Canadian Principles	$ 139	$ 190	$ 141
(a) Foreign Currency Translation	–	15	20
Less: Associated Deferred Income Taxes	–	(6)	(9)
(b) Accounting for Income Taxes			
Net Sales	12	–	–
Depreciation Expense	(44)	(4)	(4)
Deferred Income Taxes	30	4	3
Net Income in Accordance with U.S. Principles	$ 137	$ 199	$ 151
Net Income per Common Share in Accordance with U.S. Principles (d)	$ 1.00	$ 1.46	$ 1.11

Consolidated Statement of Comprehensive Income

In accordance with U.S. principles, exchange gains and losses arising on the translation of the Company's net investment in self-sustaining foreign operations and long-term monetary liabilities are included in comprehensive income which is added to net income in determining total comprehensive income. Cumulative amounts are included in accumulated other comprehensive income in the Consolidated Balance Sheet. In accordance with Canadian principles, such amounts are included in the cumulative foreign currency translation adjustment in shareholders' equity in the Consolidated Balance Sheet. During 1997, the foreign currency translation adjustment, net of deferred income taxes, was $18 million (1996 – $24 million; 1995 – $(16) million) and total comprehensive income was $155 million (1996 – $223 million; 1995 – $135 million).

Consolidated Balance Sheet

	1997		1996	
	Canadian Principles	U.S. Principles	Canadian Principles	U.S. Principles
Property, Plant and Equipment, Net	$ 3,814	$ 4,302	$ 1,955	$ 1,971
Deferred Income Tax Assets	$ –	$ 147	$ –	$ 155
Deferred Income Tax Liabilities	$ 217	$ 844	$ 197	$ 358
Retained Earnings	$ 813	$ 821	$ 715	$ 725
Cumulative Foreign Currency Translation Adjustment	$ 98	$ –	$ 80	$ –
Accumulated Other Comprehensive Income	$ –	$ 98	$ –	$ 80

Consolidated Statement of Cash Flows

In accordance with U.S. principles, geological and geophysical costs in the amount of $45 million (1996 – $28 million; 1995 – $15 million) that were included in exploration expense would be reported in operating activities as opposed to investing activities in the Consolidated Statement of Cash Flows.

Additional Disclosures

(a) Temporary differences which give rise to deferred income tax assets and liabilities under U.S. principles at December 31, 1997 and 1996 are as follows:

	Deferred Tax Assets		Deferred Tax Liabilities	
	1997	1996	1997	1996
Property, Plant and Equipment	$ 28	$ 25	$ 719	$ 329
Dismantlement and Site Restoration Allowance	59	44	–	–
Loss Carry Forward	50	52	–	–
Deferred Income	–	–	117	29
Foreign Exchange	–	7	8	–
Resource Allowance	–	17	–	–
Recoverable Taxes	44	29	–	–
Other	5	6	–	–
	186	180	844	358
Valuation Allowance	(39)	(25)	–	–
	$ 147	$ 155	$ 844	$ 358

At December 31, 1997, the Company had available unused tax loss carry forwards totalling $157 million (1996 – $152 million) which expire at various times to 2004.

(b) The Company provides stock-based compensation in the form of stock options to directors, officers and employees. At the time of grant, the exercise price is equal to the market price and, accordingly, no compensation expense is recognized under the Company's accounting policies. Under U.S. principles, a compensation cost is measured at the grant date in accordance with a fair value based method utilizing an option-pricing model. Companies electing not to recognize the compensation cost determined under the fair value based method must make pro forma disclosures of net income and net income per share as if that method of accounting had been applied. Had CanadianOxy applied the fair value based method, net income in accordance with U.S. principles would have been $134 million (1996 – $198 million; 1995 – $151 million) and net income per common share would have been $0.98 (1996 – $1.46; 1995 – $1.11).

(c) The Company provides certain post employment benefits other than pensions to its employees. Such future costs are fully accrued as deferred compensation earned during the period that employees render service, however, no funding of these future obligations is provided. Future liabilities are not material to the ongoing operations of the Company.

(d) The Company holds certain debt securities which would be classified as "available for sale securities" under U.S. principles and which would be revalued to their current market value with the unrealized gains and losses being reported in other comprehensive income. No material gains or losses were unrecorded at December 31, 1997 and 1996.

Supplementary Financial Information (unaudited)

QUARTERLY FINANCIAL DATA

Summarized quarterly financial data for 1997 and 1996 is as follows:

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996
(millions except per share data)								
Net Sales	**$ 363**	$ 319	**$ 398**	$ 318	**$ 455**	$ 343	**$ 465**	$ 382
Operating Profit								
Oil and Gas[(4) (5) (6)]	**$ 104**	$ 83	**$ 61**	$ 81	**$ 76**	$ 65	**$ 51**	$ 64
Alternate Fuels[(7)]	**13**	8	**2**	4	**16**	12	**18**	15
Chemicals[(8)]	**15**	14	**16**	15	**16**	22	**9**	15
	132	105	**79**	100	**108**	99	**78**	94
Interest and Other Corporate Items[(4)]	**16**	20	**28**	21	**34**	19	**41**	19
Income Tax Expense[(4)]	**43**	35	**31**	32	**43**	34	**22**	28
Net Income	**$ 73**	$ 50	**$ 20**	$ 47	**$ 31**	$ 46	**$ 15**	$ 47
Per Common Share:								
Net Income	**$ 0.53**	$ 0.37	**$ 0.15**	$ 0.35	**$ 0.23**	$ 0.34	**$ 0.11**	$ 0.34
Dividends Declared[(2) (3)]	**$0.075**	$0.075	**$0.075**	$0.075	**$0.075**	$0.075	**$0.075**	$0.075
Common Share Prices:								
The Toronto Stock Exchange								
High	**$27.00**	$23.44	**$32.45**	$24.73	**$37.40**	$23.80	**$40.80**	$25.20
Low	**$22.00**	$21.25	**$25.05**	$22.80	**$32.50**	$21.35	**$30.55**	$21.80
American Stock Exchange								
High (U.S.$)	**$19.75**	$17.31	**$23.50**	$19.19	**$27.31**	$17.50	**$29.75**	$18.75
Low (U.S.$)	**$15.88**	$15.50	**$18.00**	$16.63	**$22.38**	$15.63	**$21.50**	$16.00

Notes:

(1) At December 31, 1997, there were 1,266 registered holders of common shares and 136,610,426 common shares outstanding.

(2) In February 1998, the Board of Directors declared a regular quarterly dividend of $0.075 per common share, payable April 1, 1998 to shareholders of record on March 10, 1998.

(3) The Income Tax Act of Canada requires that the Company deduct a withholding tax from all dividends remitted to non-residents. In accordance with the Canada-U.S. Tax Treaty, the withholding tax is 15 per cent on dividends remitted by the Company to residents of the United States, except in the case of an affiliated company where the withholding tax is 10 per cent.

(4) Reflects the impact of the Wascana acquisition commencing April 15, 1997.

(5) Gains (losses) of $1 million, $18 million and $(8) million were recorded on the disposition of Canadian resource properties during the first, second and fourth quarters of 1997, respectively.

(6) Gains of $6 million were recorded on the disposition of Canadian resource properties during the second quarter of 1996.

(7) The annual plant turnaround occurred in the second quarter in 1997 and 1996.

(8) Reflects a $6 million write-off of a receivable during the fourth quarter of 1997.

Oil and Gas Producing Activities

The following oil and gas information is provided in accordance with the United States Statement of Financial Accounting Standards Number 69 "Disclosures about Oil and Gas Producing Activities".

A. RESERVE QUANTITY INFORMATION

Reserves of oil include condensate and natural gas liquids. Conventional crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which has demonstrated with reasonable certainty that they are recoverable from known oil and gas fields under economic and operating conditions at December 31 of each year. The calculation of reserves for synthetic crude oil for the Syncrude Project is based on CanadianOxy's participating interest in the production permit.

The net proved reserves of crude oil and natural gas are determined by deducting the mineral owners' and/or governments' royalty share and are calculated using currently enacted royalty regulations.

The Syncrude net profits interest payment to the Province of Alberta is based on "deemed net profits", therefore, estimates of net reserves entail assumptions as to future crude oil prices and plant operating costs. Reserves data do not include the reserves contained in the oil sands other than those attributable to CanadianOxy's share in the Syncrude Project.

Reserves set forth are CanadianOxy's net reserves, after royalties, and are derived from estimates prepared or audited by independent engineers. Oil reserves are in millions of barrels and natural gas in billions of cubic feet.

	Total			Yemen[1]	Canada		United States		North Sea	Other Countries[2]
	Oil	Gas	Synthetic Crude Oil	Oil	Oil	Gas	Oil	Gas	Gas	Oil
Proved Developed and Undeveloped Reserves:										
December 31, 1994	210	539	147	154	18	279	16	108	152	22
Revisions of Previous Estimates	17	47	–	11	7	55	1	3	(11)	(2)
Purchases of Reserves in Place[3]	8	20	–	–	6	1	2	19	–	–
Sales of Reserves in Place[4]	(4)	(41)	–	–	(3)	(28)	(1)	(13)	–	–
Extensions and Discoveries[5]	4	32	18	–	1	10	3	19	3	–
Production	(42)	(72)	(5)	(33)	(4)	(43)	(4)	(16)	(13)	(1)
December 31, 1995	193	525	160	132	25	274	17	120	131	19
Revisions of Previous Estimates	24	(4)	–	12	12	17	4	(4)	(17)	(4)
Purchases of Reserves in Place[6]	1	59	–	–	1	14	–	45	–	–
Sales of Reserves in Place[7]	(2)	(28)	–	–	(2)	(24)	–	(4)	–	–
Extensions and Discoveries	4	51	–	–	4	26	–	25	–	–
Production	(43)	(83)	(4)	(34)	(4)	(46)	(4)	(24)	(13)	(1)
December 31, 1996	177	520	156	110	36	261	17	158	101	14
Revisions of Previous Estimates	**65**	**(112)**	–	**57**	**3**	**(116)**	**1**	**4**	–	**4**
Purchases of Reserves in Place[8]	**142**	**546**	–	–	**141**	**545**	**1**	**1**	–	–
Sales of Reserves in Place[9]	**(42)**	**(71)**	–	–	**(37)**	**(66)**	**(1)**	**(5)**	–	**(4)**
Extensions and Discoveries	**50**	**55**	–	**25**	**21**	**30**	**4**	**25**	–	–
Production	**(60)**	**(128)**	**(4)**	**(36)**	**(19)**	**(85)**	**(4)**	**(29)**	**(14)**	**(1)**
December 31, 1997	**332**	**810**	**152**	**156**	**145**	**569**	**18**	**154**	**87**	**13**
Proved Developed Reserves:										
December 31, 1995	157	457	151	107	25	252	15	101	104	10
December 31, 1996	146	458	156	87	36	233	16	140	85	7
December 31, 1997	**271**	**648**	**141**	**124**	**127**	**472**	**14**	**108**	**68**	**6**

Notes:

[1] Up to 40 per cent of the crude oil reserves in Yemen are reserved for the recovery of costs incurred or to be incurred by CanadianOxy on behalf of CanadianOxy and the Government of Yemen. The remaining reserves are shared between CanadianOxy and the Government of Yemen based on the level of production with CanadianOxy's interest ranging between 20 per cent and 33.3 per cent and with the Government of Yemen's interest varying between 66.7 per cent and 80 per cent. The interest taken by the Government of Yemen includes satisfaction of all income taxes payable in Yemen.

[2] Represents reserves in Ecuador and Nigeria for which CanadianOxy is compensated pursuant to risk service contracts.

[3] Purchases of reserves in place in 1995 consist of the Eugene Island acquisition in the Gulf of Mexico and exchanges of properties in Canada.

[4] Sales of reserves in place in 1995 consist of an exchange of properties in Canada and property dispositions in Canada and the United States.

[5] Extension and discoveries for synthetic crude oil represent an increase in recoverable reserves arising from the approval to proceed with new lease development.

[6] Purchases of reserves in place in 1996 consist of the Vermilion acquisition in the Gulf of Mexico and property acquisitions in Canada.

[7] Sales of reserves in place in 1996 consist of property dispositions in Canada and the United States.

[8] Purchases of reserves in place in 1997 consist of the Wascana acquisition and exchange of properties in Canada and the acquisition of an additional interest in a property in the United States.

[9] Sales of reserves in place in 1997 consist of an exchange of properties in Canada and property dispositions in Canada, the United States and Kazakstan.

B. CAPITALIZED COSTS

(millions)	Proved Properties	Unproved Properties	Accumulated Depreciation, Depletion and Amortization	Capitalized Costs
December 31, 1997				
Yemen	**$ 1,222**	**$ –**	**$ 903**	**$ 319**
Canada	**2,241**	**237**	**412**	**2,066**
United States	**809**	**24**	**426**	**407**
North Sea	**394**	**–**	**159**	**235**
Other Countries	**110**	**33**	**22**	**121**
Alternate Fuels (Synthetic Crude Oil)	**317**	**8**	**106**	**219**
Total	**$ 5,093**	**$ 302**	**$ 2,028**	**$ 3,367**
December 31, 1996				
Yemen	$ 1,123	$ –	$ 692	$ 431
Canada	623	41	325	339
United States	706	10	363	353
North Sea	366	–	124	242
Other Countries	45	51	34	62
Alternate Fuels (Synthetic Crude Oil)	298	5	97	206
Total	$ 3,161	$ 107	$ 1,635	$ 1,633
December 31, 1995				
Yemen	$ 965	$ –	$ 473	$ 492
Canada	547	28	297	278
United States	772	5	465	312
North Sea	323	–	87	236
Other Countries	194	30	175	49
Alternate Fuels (Synthetic Crude Oil)	286	4	88	202
Total	$ 3,087	$ 67	$ 1,585	$ 1,569

C. COSTS INCURRED

	Total		Oil and Gas				
(millions)	Oil and Gas	Alternate Fuels	Yemen	Canada	United States	North Sea	Other Countries
Year Ended December 31, 1997							
Property Acquisition Costs							
Proved	$ 40	$ –	$ –	$ 28	$ 12	$ –	$ –
Unproved	48	–	–	34	14	–	–
Exploration Costs	209	–	–	67	31	11	100
Development Costs	572	26	49	327	109	19	68
Acquisitions[1]	1,948	–	–	1,948	–	–	–
	$2,817	$ 26	$ 49	$ 2,404	$ 166	$ 30	$ 168
Year Ended December 31, 1996							
Property Acquisition Costs							
Proved	$ 86	$ –	$ –	$ 20	$ 66	$ –	$ –
Unproved	20	1	–	15	5	–	–
Exploration Costs	146	–	–	40	30	25	51
Development Costs	324	15	156	78	60	9	21
	$ 576	$ 16	$ 156	$ 153	$ 161	$ 34	$ 72
Year Ended December 31, 1995							
Property Acquisition Costs							
Proved	$ 80	$ –	$ –	$ 19	$ 61	$ –	$ –
Unproved	23	4	–	15	8	–	–
Exploration Costs	73	–	16	11	15	8	23
Development Costs	178	11	51	53	46	16	12
	$ 354	$ 15	$ 67	$ 98	$ 130	$ 24	$ 35

Note:

[1] Includes costs allocated to oil and gas property, plant and equipment acquired in the Wascana acquisition, including $207 million relating to unproved properties.

D. RESULTS OF OPERATIONS FOR PRODUCING ACTIVITIES

	Total		Oil and Gas				
	Oil and Gas	Alternate Fuels	Yemen	Canada	United States	North Sea	Other Countries
(millions)							
Year Ended December 31, 1997							
Net Sales	**$ 1,251**	**$ 140**	**$ 497**	**$ 449**	**$ 212**	**$ 69**	**$ 24**
Production Costs	**262**	**75**	**41**	**154**	**42**	**15**	**10**
Exploration Expense	**148**	**–**	**–**	**46**	**26**	**2**	**74**
Depreciation, Depletion and Amortization	**536**	**13**	**176**	**221**	**91**	**33**	**15**
Other Expense (Income)	**17**	**3**	**1**	**11**	**(7)**	**(2)**	**14**
	288	**49**	**279**	**17**	**60**	**21**	**(89)**
Income Tax Expense (Recovery)	**151**	**16**	**110**	**41**	**21**	**9**	**(30)**
Results of Operations	**$ 137**	**$ 33**	**$ 169**	**$ (24)**	**$ 39**	**$ 12**	**$ (59)**
Year Ended December 31, 1996							
Net Sales	$ 980	$ 127	$ 522	$ 163	$ 214	$ 60	$ 21
Production Costs	153	74	38	55	37	13	10
Exploration Expense	119	–	–	24	27	25	43
Depreciation, Depletion and Amortization	412	11	212	64	93	28	15
Other Expense (Income)	3	3	4	(9)	1	(1)	8
	293	39	268	29	56	(5)	(55)
Income Tax Expense (Recovery)	128	12	107	18	20	–	(17)
Results of Operations	$ 165	$ 27	$ 161	$ 11	$ 36	$ (5)	$ (38)
Year Ended December 31, 1995							
Net Sales	$ 836	$ 111	$ 499	$ 128	$ 127	$ 59	$ 23
Production Costs	142	75	37	52	30	12	11
Exploration Expense	49	–	3	6	10	8	22
Depreciation, Depletion and Amortization	401	7	248	66	53	29	5
Other Expense (Income)	(1)	(6)	5	(10)	(9)	1	12
	245	35	206	14	43	9	(27)
Income Tax Expense (Recovery)	100	10	79	12	16	4	(11)
Results of Operations	$ 145	$ 25	$ 127	$ 2	$ 27	$ 5	$ (16)

E. STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS AND CHANGES THEREIN

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year end prices to CanadianOxy's share of estimated annual future production from proved conventional oil and gas reserves (excluding synthetic crude oil), net of royalties. Future development and production costs were computed by estimating costs, based on year end prices, to be incurred in producing and further developing the proved reserves. Future income taxes were computed by applying, generally, year end statutory tax rates, after application of existing deductions carried forward, tax credits and allowances, to the estimated pre-tax future net cash flows. The discount was computed by application of a 10 per cent discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results.

Management believes that this information does not in any way reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to probable and possible reserves, the use of a 10 per cent discount rate is arbitrary, and prices change constantly from year end levels.

(millions)	Total	Yemen	Canada	United States	North Sea	Other Countries
December 31, 1997						
Future Cash Inflows	$6,891	$2,110	$3,168	$ 985	$ 356	$ 272
Future Production and Development Costs	3,085	661	1,717	336	156	215
Future Income Tax	817	440	184	125	59	9
Future Net Cash Flows	2,989	1,009	1,267	524	141	48
10% Discount Factor	707	242	310	93	34	28
Standardized Measure	$2,282	$ 767	$ 957	$ 431	$ 107	$ 20
December 31, 1996						
Future Cash Inflows	$5,756	$1,865	$1,794	$1,269	$ 537	$ 291
Future Production and Development Costs	1,631	345	629	302	207	148
Future Income Tax	1,297	431	462	254	104	46
Future Net Cash Flows	2,828	1,089	703	713	226	97
10% Discount Factor	719	199	261	171	60	28
Standardized Measure	$2,109	$ 890	$ 442	$ 542	$ 166	$ 69
December 31, 1995						
Future Cash Inflows	$4,844	$2,054	$1,018	$ 844	$ 621	$ 307
Future Production and Development Costs	1,741	478	555	272	245	191
Future Income Tax	830	401	159	132	117	21
Future Net Cash Flows	2,273	1,175	304	440	259	95
10% Discount Factor	586	271	97	94	93	31
Standardized Measure	$1,687	$ 904	$ 207	$ 346	$ 166	$ 64

CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

(millions)	1997	1996	1995
Beginning of Year	$2,109	$1,687	$1,664
Sales and Transfers of Oil and Gas Produced, Net of Production Costs	(1,290)	(702)	(607)
Changes in Estimated Future Development Costs	(342)	(83)	(146)
Net Changes in Prices and Production Costs Related to Future Production	(797)	542	156
Extensions, Discoveries and Improved Recovery, Less Related Costs	589	126	103
Development Costs Incurred during the Period which Reduced Future Development Costs	66	206	178
Revisions of Previous Quantity Estimates	397	343	197
Accretion of Discount	272	230	217
Purchases of Reserves in Place	1,221	151	111
Sales of Reserves in Place	(303)	(63)	(82)
Net Change in Income Taxes	360	(328)	(104)
End of Year	$2,282	$2,109	$1,687

Historical Review (unaudited)

FIVE YEAR FINANCIAL REVIEW

(millions of dollars except per share data)	1997	1996	1995	1994	1993
Revenues					
Net Sales					
Oil and Gas					
Yemen	$ 497	$ 522	$ 499	$ 381	$ 67
Canada	449	163	128	138	120
United States	212	214	127	129	125
North Sea	69	60	59	64	36
Other Countries	24	21	23	22	14
Alternate Fuels	140	127	111	104	99
	1,391	1,107	947	838	461
Chemicals	260	255	233	177	164
Corporate and Other Items	30	–	–	–	–
	1,681	1,362	1,180	1,015	625
Gain on Disposition of Assets	12	18	23	28	6
Marketing, Interest and Other Income	72	18	25	14	10
Total Revenues	$ 1,765	$ 1,398	$ 1,228	$ 1,057	$ 641
Net Income					
Operating Profit (Loss)					
Oil and Gas					
Yemen	$ 279	$ 268	$ 206	$ 137	$ 15
Canada	17	29	14	52	21
United States	60	56	43	29	34
North Sea	21	(5)	9	21	20
Other Countries	(89)	(55)	(27)	(29)	(26)
Marketing	4	–	–	–	–
Alternate Fuels	49	39	35	17	7
	341	332	280	227	71
Chemicals	56	66	48	28	14
	397	398	328	255	85
Interest and Other Corporate Items	(119)	(79)	(88)	(94)	(68)
Income Tax Expense	(139)	(129)	(99)	(65)	(10)
Net Income	$ 139	$ 190	$ 141	$ 96	$ 7
Net Income Per Common Share	$ 1.02	$ 1.40	$ 1.05	$ 0.72	$ 0.05

FIVE YEAR FINANCIAL REVIEW

	1997	1996	1995	1994	1993
(millions of dollars except per share data)					
Funds Flow from Operations[1]					
Oil and Gas					
Yemen	$ 455	$ 480	$ 458	$ 337	$ 46
Canada	246	105	70	83	68
United States	176	170	100	95	89
North Sea	56	48	47	51	24
Other Countries	–	3	(1)	(2)	3
Marketing	12	–	–	–	–
Alternate Fuels	62	51	35	28	19
	1,007	857	709	592	249
Chemicals	87	90	74	42	31
	1,094	947	783	634	280
Interest and Other Corporate Items	(107)	(62)	(76)	(84)	(58)
Income Tax Expense	(122)	(119)	(77)	(57)	(10)
	$ 865	$ 766	$ 630	$ 493	$ 212
Financial Position					
Working Capital	$ 24	$ 130	$ 77	$ 85	$ (50)
Property, Plant and Equipment, Net	$ 3,814	$ 1,955	$ 1,882	$ 1,945	$ 2,006
Total Assets	$ 4,547	$ 2,404	$ 2,251	$ 2,271	$ 2,262
Net Debt[2]	$ 2,091	$ 463	$ 630	$ 860	$ 1,020
Long-Term Debt	$ 2,167	$ 572	$ 674	$ 919	$ 1,036
Shareholders' Equity	$ 1,250	$ 1,123	$ 930	$ 825	$ 721
Additions to Property, Plant and Equipment					
Oil and Gas[3]	$ 872	$ 576	$ 354	$ 250	$ 609
Alternate Fuels	26	16	15	10	8
Chemicals	18	36	52	7	7
Corporate and Other[3]	9	4	3	2	8
Total	925	632	424	269	632
Less: Exploration Expense	148	119	49	42	29
Capital Additions	$ 777	$ 513	$ 375	$ 227	$ 603
Shares and Dividends					
Common Shares Outstanding (millions)	136.6	136.2	135.0	134.3	134.1
Number of Registered Common Shareholders	1,266	1,235	1,274	1,361	1,377
Dividends Declared per Common Share	$ 0.30	$ 0.30	$ 0.225	$ 0.20	$ 0.20

Notes:

(1) Defined to be the sum of "Income Before Income Taxes, Charges and Credits to Income Not Involving Cash and Exploration Expense".

(2) Defined to be the sum of "Long-Term Debt, and Short-Term Borrowings less Cash and Short-Term Investments".

(3) Excludes costs allocated to oil and gas property, plant and equipment acquired in the Wascana acquisition in 1997.

(4) Also see Note 14 to the Consolidated Financial Statements.

PRODUCTION HIGHLIGHTS

	1997	1996	1995	1994	1993
Crude Oil and Natural Gas Liquids[1]					
(thousand barrels per day)					
Yemen[2]	**98.6**	92.1	90.3	78.1	18.7
Canada[3]	**55.6**	13.8	12.4	11.2	10.5
United States	**12.7**	13.4	11.7	11.2	9.2
Other Countries	**4.6**	3.8	4.7	4.5	2.7
Alternate Fuels[4]	**15.0**	14.5	14.6	13.8	13.3
	186.5	137.6	133.7	118.8	54.4
Natural Gas[1] (million cubic feet per day)					
Canada[3] [5]	**255**	129	132	132	126
United States	**95**	78	54	66	74
North Sea	**38**	37	36	43	25
	388	244	222	241	225
Sulphur Sales[1] (long tons per day)					
Canada	**320**	406	413	379	93
Alternate Fuels	–	–	–	–	89
	320	406	413	379	182
Chemicals (thousand short tons)					
Sodium Chlorate	**383**	349	278	217	215
Chlor-alkali	**352**	325	334	321	329

Notes:

(1) Production volumes are before deducting royalties.

(2) Production volumes differ from sales volumes due to the timing of tanker loadings. 1993 production has been averaged over 365 days (production commenced July 1993).

(3) Reflects post-acquisition production averaged over 365 days.

(4) In lieu of royalties, the Province of Alberta has elected to receive a net profits interest in the deemed net profits of the Syncrude Project.

(5) Production volumes differ from sales volumes due to natural gas storage movements.

AVERAGE SALES PRICES RECEIVED FOR CRUDE OIL AND NATURAL GAS

	1997	1996	1995	1994	1993
Crude Oil and Natural Gas Liquids[1]					
(dollars per barrel)					
West Texas Intermediate Average (U.S.$)	$ **20.61**	$ 22.02	$ 18.40	$ 17.18	$ 18.47
Yemen[1]	**25.60**	27.42	22.99	20.16	16.94
Canada	**18.25**	24.44	19.68	17.70	17.24
United States	**27.32**	29.43	23.91	21.35	22.68
Other Countries[2]	**16.10**	16.16	14.24	14.04	14.16
Synthetic Crude Oil[1]	**28.19**	29.44	23.91	21.72	21.44
Natural Gas[1] (dollars per thousand cubic feet)					
Canada	$ **1.81**	$ 1.56	$ 1.18	$ 1.89	$ 1.60
United States	**3.73**	4.04	2.67	2.92	2.90
North Sea[1]	**5.02**	4.61	4.47	4.33	4.29

Notes:

(1) The average sales price is before deducting royalties and certain other amounts deducted in determining net sales. These other amounts represent the non-tax component of the Government of Yemen's "Deemed Interest" as described in Note 1 to the Consolidated Financial Statements, United Kingdom petroleum revenue tax, and the net profits interest payment to the Province of Alberta pertaining to the sale of synthetic crude oil.

(2) The average sales price represents the service fee per barrel received by the Company pursuant to a risk service contract.

OIL AND GAS PROVED AND PROBABLE RESERVES

(oil in millions of barrels, natural gas in billions of cubic feet)

	Total			Yemen	Canada		United States		North Sea	Other Countries	
	Oil	Gas	Synthetic Crude Oil	Oil	Oil	Gas	Oil	Gas	Gas	Oil	Gas
Proved Reserves:											
December 31, 1996	184	597	174	109	40	303	21	193	101	14	–
Revisions of Previous Estimates	72	(68)	–	58	8	(72)	2	4	–	4	–
Purchases of Reserves in Place	185	681	–	–	177	659	1	1	–	7	21
Sales of Reserves in Place	(62)	(105)	–	–	(50)	(77)	(2)	(7)	–	(10)	(21)
Extensions and Discoveries	58	72	–	25	28	40	5	32	–	–	–
Production	(62)	(143)	(6)	(36)	(20)	(94)	(5)	(35)	(14)	(1)	–
December 31, 1997	**375**	**1,034**	**168**	**156**	**183**	**759**	**22**	**188**	**87**	**14**	–
Probable Reserves:											
December 31, 1996	205	227	18	97	18	125	6	56	46	84	–
Revisions of Previous Estimates	(13)	(149)	27	6	(15)	(127)	–	(22)	–	(4)	–
Purchases of Reserves in Place	76	248	–	–	54	214	1	1	–	21	33
Sales of Reserves in Place	(87)	(60)	–	–	(21)	(27)	–	–	–	(66)	(33)
Extensions and Discoveries	11	17	–	3	12	30	(4)	(13)	–	–	–
December 31, 1997	**192**	**283**	**45**	**106**	**48**	**215**	**3**	**22**	**46**	**35**	–
Proved and Probable Reserves:											
December 31, 1996	389	824	192	206	58	428	27	249	147	98	–
Revisions of Previous Estimates	59	(217)	27	64	(7)	(199)	2	(18)	–	–	–
Purchases of Reserves in Place	261	929	–	–	231	873	2	2	–	28	54
Sales of Reserves in Place	(149)	(165)	–	–	(71)	(104)	(2)	(7)	–	(76)	(54)
Extensions and Discoveries	69	89	–	28	40	70	1	19	–	–	–
Production	(62)	(143)	(6)	(36)	(20)	(94)	(5)	(35)	(14)	(1)	–
December 31, 1997	**567**	**1,317**	**213**	**262**	**231**	**974**	**25**	**210**	**133**	**49**	–

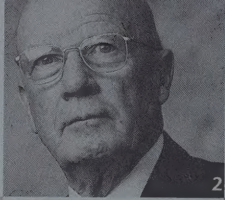
Notes:

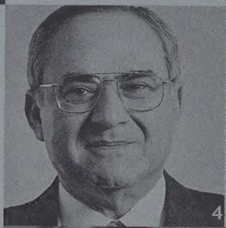
(1) Reserve quantities are CanadianOxy's working interest share using escalated price assumptions. The oil and natural gas prices used in the determination of reserve quantities were based on a mix of independent consulting firms' price forecasts.

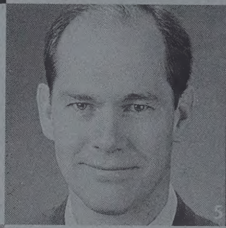
	Oil		Natural Gas	
	West Texas Intermediate at Cushing, Oklahoma U.S.$/bbl	Light Crude at Edmonton, Alberta Cdn.$/bbl	U.S. Spot at Henry Hub, Louisiana U.S.$/mcf	Canadian Spot at Empress, Alberta Cdn.$/mcf
1998	17.50	23.49	2.28	2.00
1999	19.50	25.91	2.30	2.27
2000	21.22	28.26	2.30	2.34
2001	21.86	28.71	2.40	2.46
2002	22.51	29.17	2.47	2.53

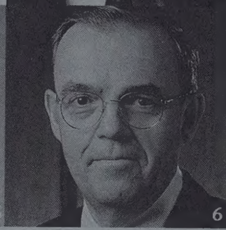
Oil and natural gas prices are escalated by 3 per cent thereafter.

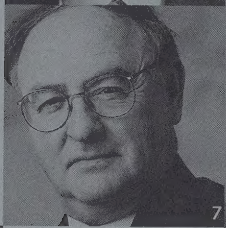
(2) Probable reserves are unrisked.

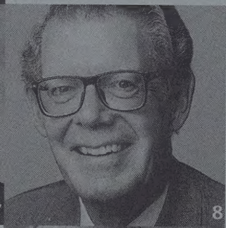


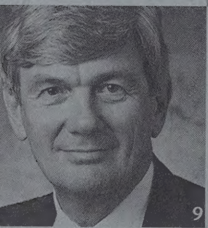


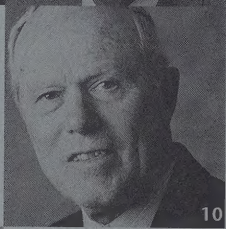


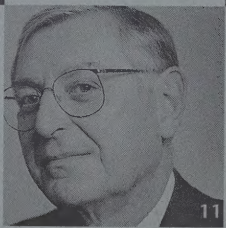












our board of directors

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(2) J. HOWARD HAWKE (1,2,3,4,5,6)
Chairman and a director of Brick Brewing Co. Limited, Toronto, Ontario

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(4) DR. RAY R. IRANI (1,4,5)
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Senior Partner of Milner Fenerty, Barristers and Solicitors, Calgary, Alberta

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(10) GORDON R. WITTMAN (1,3,4,5)
Formerly President, Chief Operating Officer and a director of Dupont Canada Inc., Mississauga, Ontario

(11) VICTOR J. ZALESCHUK
President and Chief Executive Officer of Canadian Occidental Petroleum Ltd., Calgary, Alberta

(1) Member of the Executive Committee
(2) Member of the Finance Committee
(3) Member of the Audit and Conduct Review Committee
(4) Member of the Compensation Committee
(5) Member of the Corporate Governance and Nominating Committee
(6) Member of the Environment, Health and Safety Committee

officers

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Chairman of the Board

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President and
Chief Executive Officer

Charles W. Fischer
Executive Vice-President and
Chief Operating Officer

Wesley M. Densmore
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and Production, International

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Controller and Director, Risk Management

Gary J. Beagle
Treasurer

Lynda J. Elliott
Assistant Secretary

Eric B. Miller
Assistant Secretary

corporate information

HEAD OFFICE

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Alberta Canada T2P 3Z1
(403) 234-6700
Internet: www.cdnoxy.com

COMMON SHARES

TRANSFER AGENTS AND REGISTRARS
CIBC Mellon Trust Company, Calgary, Toronto, Montreal, Regina, Winnipeg, Vancouver and Halifax

ChaseMellon Shareholder Services, New York, NY

LISTED – SYMBOL "CXY"

The Toronto Stock Exchange
Montreal Exchange
American Stock Exchange

AUDITORS

Arthur Andersen & Co., Calgary, Alberta

DIVIDEND REINVESTMENT PLAN

A copy of the offering circular (and for United States residents, a prospectus) and authorization form may be obtained by calling CIBC Mellon Trust Company at 1-800-387-0825 or via the Internet at www.cibcmellon.ca

RETRACTABLE DEBENTURES DUE 1999 (EURODOLLAR OFFERING)

TRUSTEE: Montreal Trust Company of Canada, Calgary, Alberta

LISTED: London Stock Exchange

FORM 10-K

A copy of the 1997 Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge, upon written request to the Secretary.

ANNUAL GENERAL AND SPECIAL MEETING

The Annual General and Special Meeting of the Shareholders will be held at the Palliser Hotel in Calgary, Alberta, Canada on May 12th, 1998 at 11:00 a.m.

OPERATING ENTITIES

Canadian Occidental Petroleum Ltd.

CHEMICALS		CXY CHEMICALS	CXY Chemicals Canada Limited Partnership CXY Chemicals U.S.A.
OIL & GAS	marketing	CXY ENERGY MARKETING	CXY Energy Marketing CXY Energy Marketing (U.S.A.) Inc.
OIL & GAS	canadian operations	WASCANA ENERGY	Wascana Energy Inc. Wascana Energy Partnership Wascana Oil and Gas Partnership
OIL & GAS	US operations	CXY ENERGY	CXY Energy Offshore Inc.
OIL & GAS	international operations	CANADIAN PETROLEUM	Canadian Petroleum Ltd. Canadian Petroleum International Holdings Limited Canadian Occidental Petroleum Yemen Canadian Petroleum Australia Limited Canadian Petroleum Colombia Limited Canadian Petroleum Ecuador Limited CXY Nigeria Oilfield Services Limited Canadian Petroleum Indonesia Ltd. Canadian Petroleum International Ltd. Canadian Petroleum UK Limited

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